MAKING THE SWITCH

Loyalty strategies are much easier to implement in the OTC segment making switching an attractive option for pharma

The pharmaceutical business model has been in transition for several years. Previously, unique positioning was achieved through clinical differentiation protected by a patent. Payers guaranteed reimbursement even if clinical profiles did not substantially differ from those of competitors, and manufacturers were able to charge a sufficient price premium to provide a positive return on investment by the time the patent expired.

After low-price generics flooded the markets, drastic revenue erosion occurred quickly. Having reached this point, players typically stopped investment in mature brands. Pfizer, for example, recently reported that it had cut back on marketing support for its multi-billion-dollar cholesterol-lowering drug Lipitor (atorvastatin), which reached loss of exclusivity at the end of 2011.

Such a strategy was viable when pipelines generated a constant stream of new blockbusters, since the return on investment for non-protected drugs was lower than for new products.

Many of our clients now have fewer and lower revenue potential drugs coming from R&D, while simultaneously facing higher entry hurdles and less differentiation. These companies, therefore, have to consider ways of generating value beyond patent expiry using their current assets. Without a unique positioning, they will find themselves in a commodity market, competing with generics on price.

Executive Summary

- Many pharma companies are increasingly faced with fewer and smaller drugs coming out of R&D, higher entry hurdles, and less differentiation forcing them to think about ways of generating value beyond patent expiry through customer loyalty
- In an era of increasing dereimbursement and copay, patient choice becomes ever more important – many European countries are increasingly limiting what they pay for, a trend that looks set to continue given cost-containment efforts in healthcare
- Patients should be the primary target of customer loyalty strategies given the significant and sustainable value of long-term relationships over time, particularly for classic OTC categories, chronic diseases and conditions that necessitate regular treatment
- The implementation of a patient loyalty strategy will often require a collaboration with healthcare professionals and/or institutional payers/ providers to be able to complement pharma products with additional (healthcare) services
- First-moving pharma companies embarking on a loyalty strategy will establish an unmatched customer intimacy triggering a virtual cycle that will enable them effectively to lock-out their traditional short-term/transactional competitors.

However, a unique positioning that maximises customer loyalty can be used to command a premium, and companies need to build long-term relationships with patients, prescribers and institutions/accounts in order to generate sustainable value.

Over time, first-moving pharma companies embarking on a loyalty strategy will establish an unmatched customer intimacy by understanding and fulfilling their customers' needs better and better, triggering a virtual cycle that will enable them effectively to lock-out their traditional short-term/transactional competitors.

But just how can a product that is unable to compete on outcomes relative to total healthcare costs still achieve a sustainable competitive advantage driven by customer loyalty?

Who is the customer?

In healthcare, multiple stakeholders are, directly or indirectly, involved in purchasing decisions. The classic pharma marketing model focuses chiefly on prescribers, and loyalty programmes for this group prove effective as long as healthcare professionals have the freedom to prescribe a specific brand in a class.

Pharma companies have also started managing institutional payers/providers by operating key account models, but unique positioning is difficult to achieve with institutional payers/ providers in the absence of incremental outcomes relative to total healthcare costs.

In the past, patients have not been a focus for pharma marketing, due to legal restrictions in many countries on direct-to-consumer (DTC) marketing. These limitations still exist, but the emergence of new media has led both to dramatic improvements in patients' access to medical information and to new opportunities for pharma companies to interact with them.

Social media in particular allows access to both mass audiences and targeted subpopulations. We believe that patients should be the primary target of pharma customer loyalty strategies given the significant value of long-term relationships, particularly for patients suffering from chronic diseases.

Depending on the product(s)/disease and country, the implementation of a patient loyalty strategy will often require a collaboration with healthcare professionals and/or institutional payers/providers to be able to service patients' needs and meet these consistently, particularly when pharma products need to be complemented with additional (healthcare) services.

In an era of increasing dereimbursement and copay, patient choice becomes ever more important. This year in France, 200 medicines were dereimbursed, and while many are old products that have been superseded by more effective therapies, there are others which have loyal patients who now face either switching to a reimbursed drug or paying for the drug themselves.

> ***"Social media ... allows access to both mass audiences and targeted subpopulations"***

And France is not alone in this regard; many European countries, notably Spain, are increasingly limiting what they pay for – a trend that looks set to continue. Additionally, pressure is growing to switch some older and established drugs to OTC status – an area in which Europe lags far behind the US in availability of common molecules as OTC products.

As these categories grow, customer loyalty will play an increasing role in avoiding failure or determining success. While DTC promotion of such medicines may remain difficult unless they are fully OTC, programmes to promote loyalty among existing customers can be pursued prior to a status change and may serve to protect value once government funding stops.

Branding: the customer loyalty strategy

A brand is not just a trade name or a logo. In the patient's mind, it represents the identity and values of a specific product, and more broadly, the company's image in a specific therapeutic area, such as Novo Nordisk in diabetes.

Brands foster a sense of 'knowing' the product, and, by extension, the all-important feeling of trust and emotional connection. They can, therefore, provide orientation in the decision-making process and make the difference between two drugs with identical clinical profiles.

"... programmes to promote loyalty ... can be pursued prior to a status change ..."

The most prominent example is a drug that has been on the market for more than 100 years and still plays in the blockbuster league: Bayer's Aspirin (acetylsalicylic acid). First launched as an analgesic in 1897, Bayer has developed the brand constantly, adding a number of product variations. These line extensions include different formulations, dosages, or combinations promising more targeted pain-killing effects, such as Aspirin Complex or Aspirin Migraine. Other variations, such as Aspirin Cardio, were developed for completely different indications.

Today, Aspirin is still Bayer's number two brand in OTC sales while Aspirin Cardio is its number eight prescription brand. In 2011, Aspirin global sales grew more than 12 per cent, totalling €884m, and in the last 10 years alone Aspirin's cumulative global sales reached €8.7bn despite the multiplicity of generic and branded competitors. It is an unparalleled performance, and explains the extremely self-confident brand subtitle Bayer uses in the US: "Expect wonders".

"Brands foster ... the all important feeling of trust and emotional connection"

From the outset, Bayer implemented a consistent branding strategy, including its characteristic pill design with an imprint of the Bayer cross on one side and the Aspirin logo on the other.

Almost exactly one hundred years later, in 1998, Pfizer launched its oral erectile dysfunction drug Viagra (sildenafil) following remarkably similar branding principles: the pill comes in a characteristic blue diamond shape imprinted with the Pfizer logo. But in 2004 Pfizer also introduced the first reward programme for a prescription drug, a 'value card' that offers one free prescription after every six prescriptions of Viagra purchased. Such a programme is particularly effective for a product like Viagra, where 40 per cent of its users pay for either their entire prescription or the amount not covered by their insurance.

Both Aspirin and Viagra have defined a completely new class of product, and their brand names have even become the generic term for the category they defined – 'Aspirin' is often used to mean an oral pain killer in general.

But being first-in-class is not a requirement for brand name prominence. Well-known products such as Ritalin (methylphenidate) and Imodium (loperamide) have also been able to achieve strong brand name recognition with the public. For example, Ritalin first licensed by the US Food and Drug Administration (FDA) in 1955 for treating attention-deficit hyperactivity disorder, is often at the core of press articles about appropriate diagnosis and treatment for hyperactive children.

"... being first-in-class is not a requirement for brand name prominence"

Imodium is typically part of every travel pharmacy to treat diarrhoea, particularly for tropical destinations.

When does a customer loyalty strategy make sense?

As drug reimbursement becomes increasingly stringent, with a rising number of non-reimbursed drugs, increasing co-payments and restricted access, brand loyalty from patients will become more important. However, a customer loyalty strategy is not always applicable. Certain conditions related to the type of product and the market environment determine the probability of success.

First and foremost, there needs to be a certain degree of freedom, from both the therapeutic and legal perspectives regarding product choice. A brand-loyal patient might be forced to use a non-preferred product under a restrictive generic substitution scheme and a physician might not be able to prescribe a preferred brand because it is excluded by the contracts between the patient's insurer and the product's manufacturers.

On the other hand, products used for conditions with low medical need, such as lifestyle drugs, offer a higher level of freedom and are therefore more suited for customer loyalty strategies. That said, building customer loyalty through strong brands requires considerable investment in time and resources so should only be targeted at conditions where frequent and longer-term treatment make this investment worthwhile.

In addition to the classic OTC categories, such as pain and cough and cold treatments, these include chronic conditions and conditions that necessitate regular treatment, such as asthma, erectile dysfunction, allergies, and so on.

"Building customer loyalty through strong brands requires investment ... "

Niche products, such as Decapeptyl and Pentasa, may also continue to thrive beyond patent expiration, particularly if they are non-substitutable for bioequivalence reasons. In such cases, customer loyalty with prescribers and/or patients is achieved through continuous life cycle management, such as packaging, dosing, formulations and generation of further (real-world) evidence.

Another consideration is the extent to which patients can be accessed through communication, particularly internet-based channels. Disease portals, such as MSWatch for multiple sclerosis, have played an important role for patients and their relatives during the e-health 1.0 era.

Today, PatientsLikeMe, a data-driven social networking health site, enables its members to share condition, treatment and symptom information in order to monitor their health over time and learn from real-world outcomes.

Starting initially with a community for amyotrophic lateral sclerosis (ALS) patients, PatientsLikeMe expanded its scope in 2011 to more than 1,200 health conditions with currently more than 169,000 registered patients.

"Switching prescription drugs to OTC can therefore be a good option for pharma"

In markets with rigid restrictions on DTC marketing, such as most markets in Europe, it is difficult to implement an effective branding strategy without healthcare partners acting as intermediaries, making loyalty strategies substantially easier to implement in the OTC segment. Switching prescription products to OTC can therefore be a good option for pharma companies, particularly when they possess a strong loyalty brand dominating the overall class.

Novartis, for example, launched and developed OTC formulations of Voltaren (diclofenac), with the result that it currently belongs to Novartis' high-growth OTC brands. In 2011, Voltaren's global sales accounted for $798m.

What are the implications for pharma?

Pharma companies that aim to build long-term customer loyalty need to adapt the way they operate and develop marketing capabilities for consumers/patients. Leading consumer giants like Nestlé and Procter & Gamble, for example, have approached the self-medication space as an opportunity to capitalise on their strengths.

In 2011 P&G and Teva Pharmaceuticals, the world's largest pharmaceutical manufacturer, announced the formation of a joint venture based on P&G's OTC business outside the US. This business will combine world-leading consumer marketing and pharmaceutical value chain capabilities.

Similarly, Nestlé Health Science, a leading player in the medical nutrition industry, has ambitions to address a number of chronic conditions in the area of gastrointestinal, metabolic and brain health through 'science-based personalised nutritional solutions'.

Starting customer loyalty strategies and related brand-building shortly before loss of patent protection is too late. Customer loyalty is not just another life cycle management measure, but rather an essential part of the product development process. Unique positioning begins with the development of a differentiated target product profile and customer experience based on patients' needs beyond the medical and technical aspects. In order to achieve this, marketing needs to be actively involved in the initial stages of the product development process.

Successful implementation requires a consistent mix of all marketing instruments to maximise the value perception by patients and other stakeholders. Pricing will need to account for the loyalty premium patients and/or other payers are willing to pay using more advanced analytical instruments such as conjoint analyses. Pharmaceutical organisations will have to agree on ways to measure customer loyalty and align their reporting and incentive systems in order to ensure strategic alignment and successful implementation.

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