

# The European pharmaceutical industry: Delivering sales excellence in turbulent times

A roadmap for getting the basics right and exploring the future

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## Introduction

For the European pharmaceutical industry, the time has come to think again.

In the past, most companies adopted a pure "size sells" strategy. Ever-growing armies of sales representatives seemed to be the fast track to higher sales. Sales force volume, it seems, was the only thing that mattered. The outcome is that, today, marketing and sales expenditures at drug companies can account for over 30% of revenues – far more than R&D spending. While expansion of some 10% annually over the past five years has pushed the European pharmaceutical sales force above 100,000, statistical evidence from the USA suggests that it may after all be possible to buck the trend. In America, the number of sales visits to doctors fell by 13% in 2005.

In Europe too, size is evidently no longer the all-important issue. Instead, a different factor is gradually emerging as the new secret of success: sales force effectiveness (SFE), or sales excellence. Aware of this, more and more pharmaceutical companies are reviewing their existing sales models in an attempt to answer one central question: Do we still see the right customers at the right intervals, communicating the right message and using the right promotional mix? As the industry grapples with dynamic development, weak product pipelines and pressure on margins, some of the traditional answers just don't seem to fit any more.

Our study highlights the challenges and opportunities that arise from this development. It gives pharmaceutical companies a platform from which to review their own sales models. The study is based on a survey conducted by Roland Berger Strategy Consultants at the eyeforpharma Sales Force Effectiveness Europe 2006 conference in Barcelona. More than 200 managers took part, representing the world's leading producers of ethical drugs, generics and OTC products. These companies were split into two size categories: large companies (with global revenues upward of USD 15 billion) and midsized companies (USD 1 to 15 billion).

To gain a more detailed insight into the trends and challenges facing the industry, we also discussed qualitative issues in a series of interviews with selected industry experts across Europe. Our own global project experience naturally also came to bear on the study. Roland Berger Strategy Consultants has completed a wide range of marketing and sales projects for pharmaceutical companies in the past, and the industry remains a strong focus for our daily work. We trust that the study will fuel discussion of the most important aspects of SFE and help readers identify how best to achieve sales excellence in their own sphere of influence.

Our sincere thanks go to all respondents and interview partners. Without their valuable knowledge and input, this study would not have been possible.

Stephan Danner

Aleksandar Ruzicic

## Executive summary

These are exciting times for the European pharmaceutical industry. A wide range of external and internal challenges need to be tackled, all of which are exerting pressure to make sales forces more effective.

Regulatory changes, growing financial pressure and changing buyer behavior present serious external challenges in the healthcare market. At the same time, internal issues such as weak product pipelines and costly product withdrawals only add to the challenges currently confronting the industry.

Anticipating the difficult times ahead, some companies have abandoned their traditional "size sells" strategy and started to downsize their sales force. One recent study found that the number of sales visits to doctors in the USA fell by 13% in 2005. However, counter to this trend, pharmaceutical sales were up 7% to USD 602 billion in 2005. Thus, as one pharmaceutical executive puts it: "The days when armies of sales reps in the field drove revenues are over. The focus is now shifting to the productivity and performance of those sales staff who remain."

Some pharmaceutical companies have already started to work on sales force effectiveness by activating levers focused on change, customers, the company, employees and IT. Setting priorities is a vital issue, of course. Here, the Roland Berger survey found that companies expect improved targeting to deliver the most quick wins. Training and call quality are regarded as the most important aspects for long-term benefits. Survey participants nevertheless identified a number of potential obstacles to SFE, complaining about significant problems with sales and marketing interactions, as well as with IT and metrics.

Drawing on extensive project work, numerous interviews with senior industry experts and copious desk research, Roland Berger Strategy Consultants spotted a number of Europe-wide trends in sales force effectiveness. First and foremost, pharmaceutical companies are trying hard to get "back to basics" – and to get the basics right. In the past, they invested heavily in expensive and often excessively complex CRM systems. Now, their attention is turning to superior targeting, compliance with efficiency benchmarks and more effective sales activities. Investing in call quality is one aspect of this shift of focus.

In addition, several new trends are appearing on the sales force effectiveness horizon. Pharmaceutical companies are increasingly experimenting with innovative approaches to both external and internal challenges. Not all these ideas will be appropriate to every industry player,

however. There is no "silver bullet". Drug companies must therefore identify which approaches are most suitable for them.

For example, some companies are seeking to distinguish between more expensive, superbly qualified and highly trained sales specialists and less costly sales reps who have less training. The idea is that the latter could be replaced over the next five years by more cost-effective communication media. At the same time, carefully targeted programs are being set up to appropriately address groups of stakeholders and opinion leaders whose significance is growing, such as payors and (in the UK) nurses.

As pressure on pharmaceutical companies' margins continues to grow, the industry will also be forced to explore new, more cost-effective promotional channels for physicians (such as direct mailing and e-detailing). This will require systematic ROI measurement if the promotional mix is genuinely to be optimized. Once pharmaceutical companies have improved transparency, they should also be able to synchronize the promotional mix across all channels. New, more flexible organizational options for sales and marketing, such as the strategic use of contract sales organizations (CSOs), could also feature in this revamped constellation.

In the immediate future, though, the key challenge to the pharmaceutical industry remains executing the basics of SFE properly while gradually piloting some of the more innovative sales models. Focusing on the basics, such as pragmatic and easy-to-use principles, tools and processes, should enable the pharmaceutical industry to increase sales excellence quickly in the short term. Integral transformation programs must first be established to accelerate execution. Unlike in the past, most of these programs will be conducted and managed on a pan-European level. SFE is no longer the responsibility of individual countries. Instead, it has become a key platform for cross-border learning and standardization. While all this is happening, pharmaceutical companies should also explore and learn about new trends and innovative sales models. This will give them a competitive advantage as first movers when proven models are ultimately rolled out.

As with most management topics, there is no patent recipe for sales excellence. Each company must plot its own SFE roadmap in light of its own individual strategic context. To help companies master this challenge, Roland Berger Strategy Consultants has developed – and successfully executed in practice – a comprehensive modular strategy. The first step is to stake out a customized SFE model for the company concerned. Key principles and best practices are then defined for each selected lever. Validation in the field enables the organization to build momentum for change by securing and communicating quick wins that have a measurable, demonstrable impact. Finally, enterprise-wide roll-out drives change throughout the local sales and marketing organizations.

## Taking stock: Where the pharmaceutical industry stands

In the quest for sales excellence, it is crucial to understand what drives change in the pharmaceutical industry. Why has the traditional pharmaceutical sales model come under such pressure?

For the purposes of this study, three main causes can be identified:

- > Growing financial pressure
- > Regulatory changes
- > Changes in buyer behavior

Several components contribute to mounting **financial pressure**. The first is a general drive to contain healthcare costs across Europe. Due to "enforced" annual price reductions, pharmaceutical companies are faced with lower margins, which increase the need for a transparent return on investment. This pressure is being augmented by steadily growing generic competition across Europe. In addition, weak product pipelines are insufficient to replace products that are going off-patent. For small to mid-sized drug firms, this will increasingly become an existential threat, triggering a further wave of consolidation across Europe.

Yet the pharmaceutical industry also has to respond to **regulatory changes**. On the one hand, such changes can impose constraints on existing sales methods. On the other, they can also level the playing field and/or open up new opportunities for first movers in the industry. Some of the changes involve stricter self-regulation mechanisms, such as the British code of conduct that recently came into force and that seeks to further limit access to physicians.

The third challenge lies in the way **buyer behavior is changing**. General practitioners (GPs) are experiencing mounting pressure to prescribe lower-cost drugs, for example. Hospitals are adopting a more professional approach to procurement and must therefore be served by key account managers. Meanwhile, countries such as Italy or Spain are effectively breaking up into multiple regional markets as budgets come under local control.

### Different countries, different causes

As usual, there is no one-size-fits-all solution to these challenges. On the contrary, even a cursory view of the industry's five leading European markets shows that the causes of these changes vary from country to

**"Sure, organizations need to be flexible. But so do people. And people take time to change."**



country. Country specific adaptation of sales and marketing processes is thus becoming an imperative.

In **Germany**, a strict policy of reference pricing is causing drug prices to drop as low as generic levels. In addition, GPs are under heavy pressure to stay within annual prescription budgets.

New regulations have introduced Diagnosis Related Groups (DRG) that will drive the future evolution of hospital demand. The number of consultations has dropped now that patients have to pay a fee when seeking advice from a physician.

Buyer behavior in Germany is essentially determined by two factors. First, patients themselves must pay the often considerable difference ("co-payments") for drugs that cost more than the reference price. Second, powerful hospital purchasing groups have begun to negotiate prices across all products.

In **France**, reference pricing is based on unmet medical needs, identified market potential and the cost of both research and development and marketing and sales. Prices for medication are gravitating toward minimum levels, while low-cost generic alternatives are abundant.

Recently introduced marketing regulations aim to limit the frequency of visits to physicians. Furthermore, the French government wants to increase taxes on pharmaceutical promotional expenditures.

Buyer behavior is being influenced by high co-payments and a three-tiered reimbursement system that refunds 100%, 65% or 35% of the price of medication. Private hospitals now handle over 50% of all operations and are thus gaining in importance.

In the **United Kingdom**, primary care trusts are offering incentives to cut branded prescription. Additional financial pressure arises from a price regulation arrangement that is renegotiated every five years between the Department of Health and the pharmaceutical industry.

In addition, the Association of the British Pharmaceutical Industry (ABPI) introduced a new code of conduct on January 1, 2006, that includes further restrictions on access to health professionals. The National Institute of Clinical Excellence (NICE) is yet another hurdle to product use.

To ease the burden on doctors, nurses have been given greater powers to prescribe drugs. Also, substantial investment by the National Health Service

has raised the number of hospital-based physicians, whereas the number of GPs is stagnating.

In **Italy**, financial pressure stems from a singularly opaque process that requires prices to be negotiated on the basis of a European Union average every six months. Additionally, reference prices for therapeutic classes are adjusted automatically if the prices for generics are 20% lower than those for patent-protected new chemical entities (NCE).

A new regulation is planned that would introduce co-payments for visits to specialists and laboratory tests. At present, Italy is the only top-five country that does not yet operate an aut-idem substitution model.

Since Italy has the highest density of medical practitioners in Europe, this increases the need for potential-based targeting. In addition, buyer behavior has been affected by the fact that Italy has been decentralized into 21 regions with local budget control.

In **Spain**, the use of generic drugs will be promoted further following the recent approval of aut-idem substitution regulation. Reference prices are based on the average European drug price over the past six months.

A new code of conduct implemented in June 2005 has expanded self-regulation mechanisms. A further focus on price reductions for drugs will follow.

Structural reforms have transferred autonomous control over purchasing budgets to 17 regions. In addition, planned advances in privatization in the hospital sector could offer job opportunities to 20,000 physicians who are currently unemployed.

### **The story so far**

In the past, the industry reacted to similar developments by focusing on products for common chronic diseases. These were typically marketed to general practitioners. Product launches took place globally to maximize sales in as many countries as possible and as quickly as possible. Another standard response to such challenges was to increase the size of the sales force. Huge armies of sales representatives were seen as a competitive advantage. One negative side-effect, however, was that sales and marketing became the industry's biggest expense item at over 30% of revenues, even ahead of R&D. Today, two new sales and marketing trends are emerging. Pure "size sells" strategies are being abandoned. Furthermore, drug companies consciously tailor their sales and marketing strategies to individual stakeholders.

**Abandoning pure "size sells" strategies**

Apparently, size is no longer the critical issue. Recruiting a never-ending stream of sales reps is evidently no longer regarded as the best way to increase sales. In the survey conducted by Roland Berger Strategy Consultants, respondents were asked how their sales force had evolved over the past two years and how it would develop in the next two years (see figure).

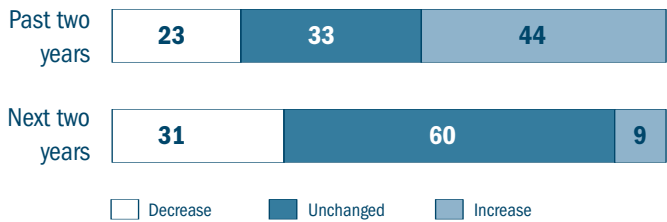
**"We need to change our mindset. We need to look beyond sales and see the margins too."**

The change of direction is striking. Although 44% of respondents had swelled their ranks of sales representatives in the past two years, only 9% planned to do so in the next two years. Indeed, more than 30% expected to see a significant decrease in the size of their sales force.

The unclear and volatile revenue situation in the pharmaceutical industry obviously necessitates more flexible sales resources. As in any industry, such headcount reductions must nevertheless be executed with great circumspection to minimize the negative impact on customer relationships.

**Sales force evolution (% of all answers)**

*How did the number of sales reps evolve at your company over the past two years?*  
*How will the number of sales reps evolve at your company in the next two years?*



**Tailoring sales and marketing strategies to individual stakeholders**

The second trend concerns the relative importance of individual stakeholders in the healthcare market. Roland Berger Strategy Consultants asked study participants which group had been the most influential in the past and whose influence they expected to increase most in the next two years (see figure on page 11).

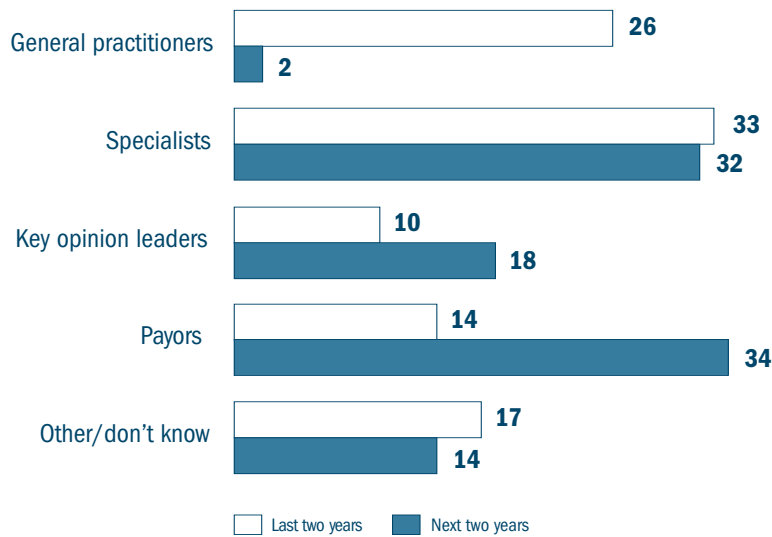
Specialists are in short supply. All drug companies want to win their custom. Accordingly, this group has been the most influential in the past and is expected to remain so in the next two years. Conversely, the influence of general practitioners is expected to stagnate. 26% of respondents cited them as the most influential group in the past, but only 2% believed their influence would increase most in the future.

Payors, on the other hand, are emerging as a new group of highly influential stakeholders. Although they are very sensitive to price, they offer the opportunity to deliver value across the entire healthcare system.

**Most influential stakeholders in the past and the future (% of all answers)**

*Which stakeholders were most influential for you during the last two years?*

*The influence of which stakeholders will increase most for you in the next two years?*

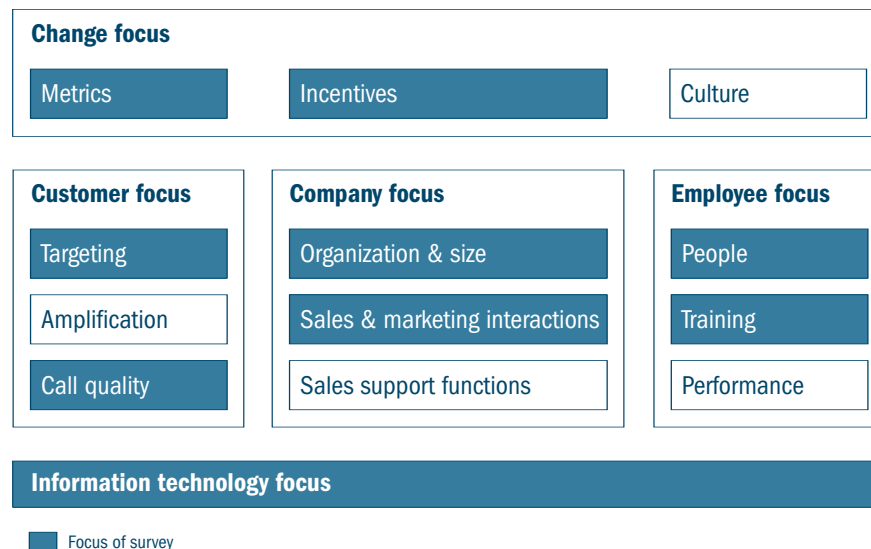


To compete successfully within the new stakeholder context, pharmaceutical companies must develop tailor-made sales and marketing strategies that meet the differing demands of these individual constituents. Exclusive relationships with specialists and the ability to visibly add value for payors, will become the key sources of competitive advantage in the future.

## Sales excellence levers that deliver a competitive edge

Pharmaceutical companies are rethinking their sales strategies and considering what market approaches will best enable them to deal with fiercer pressure on margins, increasing stakeholder complexity and a changing healthcare market. This is where sales excellence comes into play. Sales excellence gives companies a fresh angle on the pivotal sales question now facing the pharmaceutical industry: Do we still see the right customers at the right intervals, communicating the right message and using the right promotional mix? In response to this question, Roland Berger Strategy Consultants has identified five major areas that are critical in shaping sales excellence: **change, customers, the company, employees** and **information technology**. Focusing on these five areas, we have developed a holistic model that can be tailored to the needs of each pharmaceutical company (see figure). Each area groups various levers of sales excellence, each of which is itself underpinned by a clear set of key principles.

### Roland Berger's Sales Excellence Model – Key levers



**Change-focused levers – key principles**

- > **Metrics:** Focus the (sales) organization on selected key performance indicators covering all significant value drivers
- > **Incentives:** Provide monetary and non-monetary incentives to motivate high performers in the sales organization
- > **Culture:** Define and live out corporate values that foster a willingness to change and boost competitiveness

**Customer-focused levers – key principles**

- > **Targeting:** Identify the most valuable customers and address them effectively
- > **Call quality:** Get the most out of the (increasingly limited) interactions with customers
- > **Amplification:** Enhance the results of sales representatives by optimizing promotional (marketing) investments

**Company-focused levers – key principles**

- > **Organization and size:** Match the size and structure of the (sales) organization to defined strategic objectives
- > **Sales and marketing interactions:** Foster interactions between sales and marketing to translate strategy into effective action
- > **Sales support functions:** Invest adequately in critical sales support functions to increase the impact of sales representatives

**Employee-focused levers – key principles**

- > **Training:** Continually improve the skills of the overall sales organization in the most cost-effective manner
- > **Performance:** Rigorously manage for performance by identifying, rewarding and developing high performers
- > **People:** Identify, attract and retain the best people who consistently deliver excellent results

**IT-focused levers – key principles**

- > Leverage information technology prudently to boost the productivity and effectiveness of the (sales) organization

**What the industry says**

To analyze which levers have the highest impact on sales excellence, Roland Berger Strategy Consultants asked the survey participants to prioritize the nine levers shown in blue (see figure on page 12) in light of their answers to three key questions (see figure).

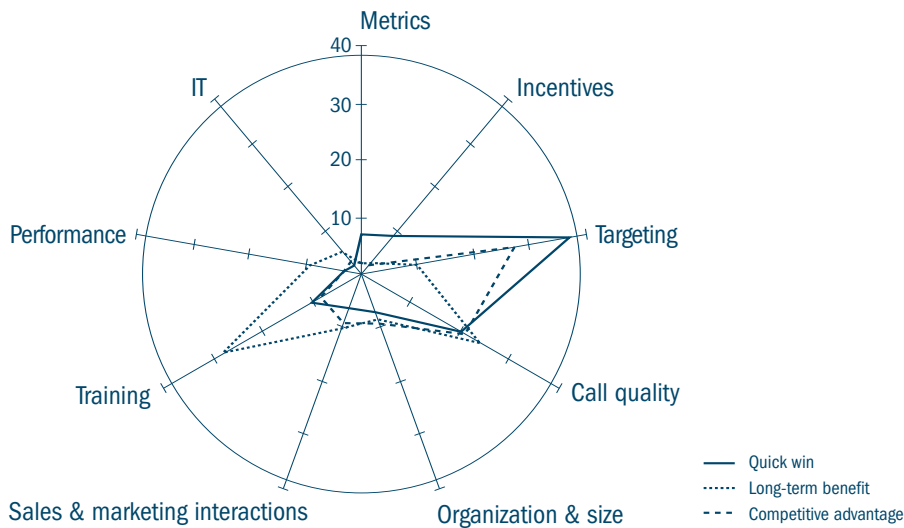
**"We try to learn lessons from the fast-moving consumer goods industry and apply them to healthcare. Psychological profiling and prescribing behavior are two examples."**

**Preferred investment areas to realize benefits and competitive advantages (% of all answers)**

*If you had to deliver quick wins, in which area of sales force effectiveness would you invest first?*

*In which areas of sales force effectiveness would you invest first to deliver the strongest long-term benefits?*

*Which area of sales force effectiveness provided your company with the greatest competitive advantage in the past two years?*



27% of the managers we interviewed cited **targeting** as the preferred area to deliver quick wins. On the other hand, **training and call quality** are considered to be most important to long-term benefits. Respondents indeed believed that superior call quality delivers both short- and long-term benefits. However, although these findings point to call quality as a singularly important lever, interviews with industry experts indicate that pharmaceutical companies have experienced difficulties in measuring progress in this area. When asked which levers helped them to realize

the greatest competitive advantage, respondents most frequently pointed to **targeting** and **call quality** (27% and 21%, respectively). This finding is nevertheless subject to certain caveats. Since most companies have invested in improved targeting in the past two years (targeting attracted most investment in the past two years in 34% of cases), it will be difficult for any of them to derive a sustainable competitive advantage from this lever.

**If it's broken, mend it: Investments and obstacles then and now**

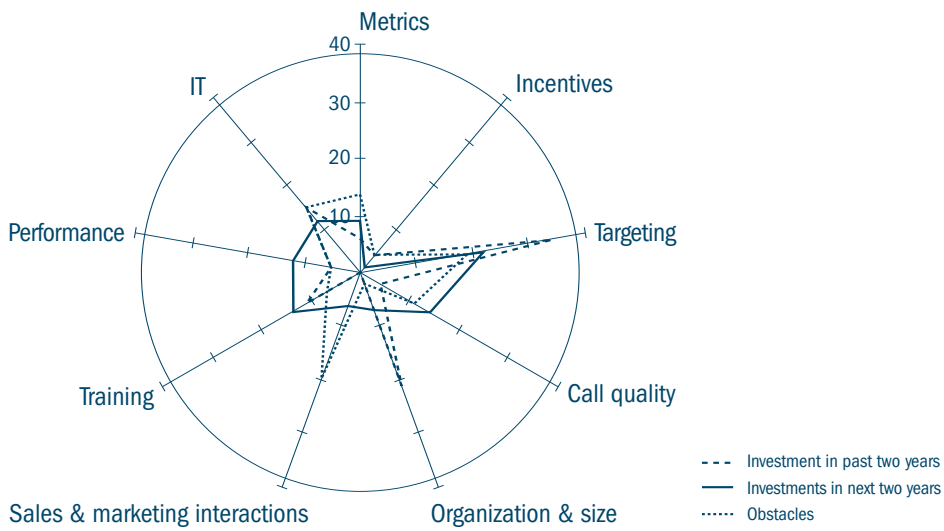
To understand current developments in investment behavior and identify existing and potential obstacles, we asked the managers in our survey to state which area of SFE their company had invested in most in the past two years. We also wanted to know in which area they planned to invest in the next two years. Additionally, we inquired about the area of sales force effectiveness in which companies missed their goals by the widest margin in the past two years (see figure).

**Preferred historic and future investment areas and obstacles  
(% of all answers)**

*In which area of sales force effectiveness did your company invest most in the past two years?*

*In which area of sales force effectiveness will your company invest most in the next two years?*

*In which area of sales force effectiveness did your company miss its goals by the widest margin in the past two years?*





More than a third of the respondents cited targeting as their preferred area for investment in the past. The majority of these companies claimed to have already gained a competitive advantage from this practice. They therefore intended to channel future investments into other areas. It follows that, although it is difficult to gain a sustainable competitive advantage from targeting alone, targeting is now regarded as an essential entry ticket to successful future competition. Only excellent execution, however, can create a lasting competitive advantage.

A fifth of our interviewees complained of significant problems with sales and marketing interactions in the past: And although this has never been a focus of investment in the past, pharmaceutical companies are at last taking a closer look at this critical area.

Challenges were also reported in the areas of IT and metrics. Interview partners spoke of past attempts to pursue complex, high-profile projects that had ultimately failed to secure the necessary buy-in. In the future, full integration in daily operations will be crucial both to tactical execution and to strategic management in both areas. Interestingly, although call quality was named as a lever to realize short and long-term benefits, this assessment is not reflected in the pattern of past investment.

**"You might not think so, but sales and marketing interactions are the hardest part."**

## Organizing for sales excellence

Consistent implementation of a clearly defined operating model is an essential prerequisite for sales excellence. This model must combine adequate financial resources with an organizational set-up that balances broad geographic reach with local implementation capabilities. Aware of this, we were eager to see how theory compared with practice on this score.

**"Don't make it too complex.  
Keep it simple and pragmatic."**

### Budgets for European sales force effectiveness

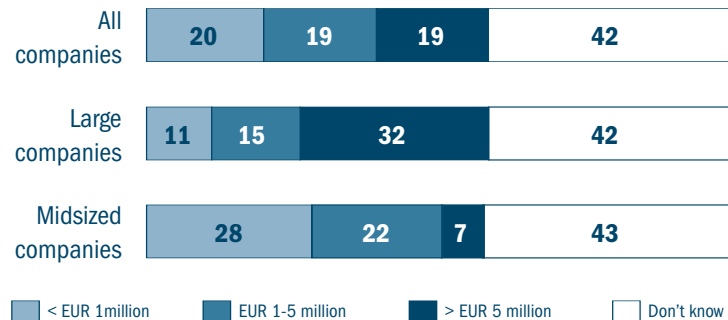
We asked the participants in our interactive survey how much their companies planned to spend on SFE in Europe in 2006 and how this budget compared with that of the previous year (see figures on page 17 and 18).

Clearly, budgets are tight, so investments require great prudence. Although 19% of all budgets are over EUR 5 million, 28% of the mid-sized companies involved in the study have SFE budgets of less than EUR 1 million.

Notwithstanding, 38% of SFE budgets are expected to increase.

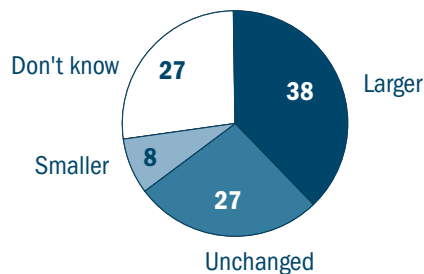
### Volume of sales force effectiveness budgets (% of all answers)

*How much will your company spend on sales force effectiveness (projects, IT, training, etc.) in Europe in 2006?*



### Evolution of sales force effectiveness budgets (% of all answers)

*How does this year's European sales force effectiveness budget compare with last year's?*



It is noticeable that the narrower the scope of geographic responsibility, the less managers know about their company's SFE budget. More than 40% of participants did not know the budget of their company – a clear indication that transparency is lacking in this vital area.

#### Organizational structure

The majority of SFE initiatives are launched on a European or global level. Midsized companies place primary responsibility in the hands of their European or global general managers, whereas large companies designate a special European/global SFE manager. Country management handles implementation.

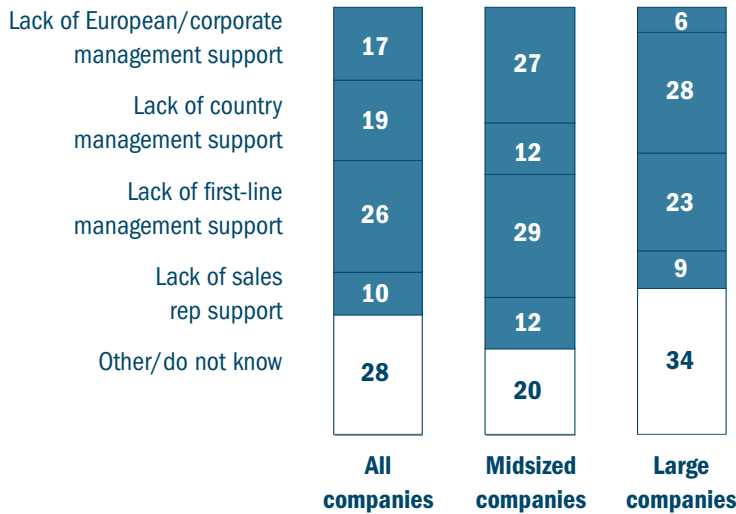
**"First-line managers are our key target audience, generating the biggest impact – if they are addressed adequately."**

But what are the major obstacles that prevent people from buying into sales excellence projects? More than a quarter of all firms point the finger at first-line managers as the most important impediment to achieving defined SFE targets (see figure on next page). These managers should therefore be involved in SFE programs from an early stage. Ideally, first-line managers should be integrated right from the outset – when the key levers of SFE are being identified, say. This practice should ensure that they engage in the project. And it will also help higher-level SFE managers to identify and leverage selected first-line managers as change agents. The influence of this class of managers on the motivation of their sales representatives should not be underestimated.

Given that over a quarter of all participants answered "other/don't know", there would also seem to be more complex situations where further pockets of resistance exist or multiple stakeholders are blocking change.

**Major organizational obstacles to sales excellence (% of all answers)**

*Which organizational level has been the primary obstacle to achieving defined sales force effectiveness targets at your company?*



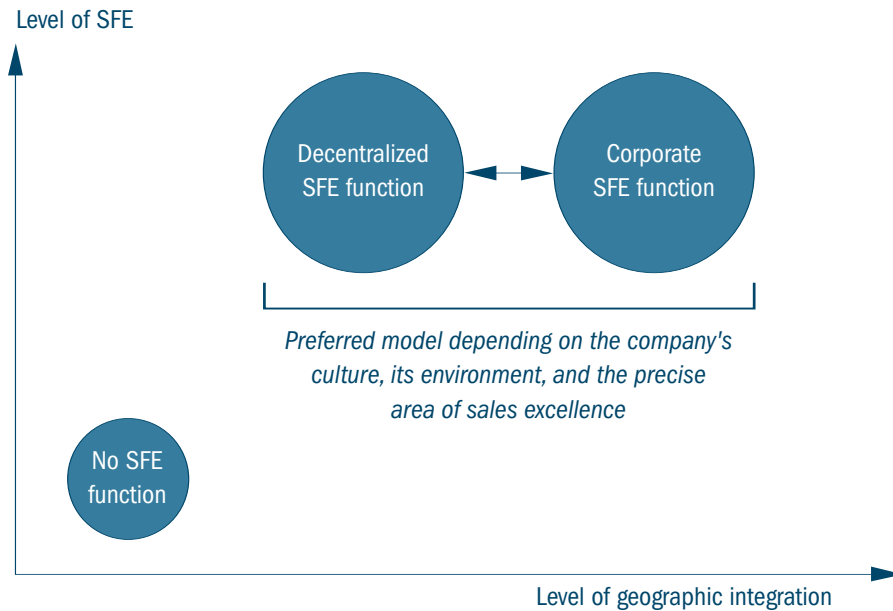
**Roland Berger's operating models**

Roland Berger Strategy Consultants has crafted three different operating models that differ in terms of the level of geographic integration and the potential level of sales force effectiveness (see figure on next page):

- > No SFE function
- > Decentralized SFE function
- > Corporate SFE function

Each company must determine which of the models is best suited to its own needs. Choosing the "right" model will always depend on the company's culture, the environment within which it operates and the precise area of SFE. A heavily centralized model will not necessarily deliver the highest level of SFE in all cases.

### Roland Berger Strategy Consultants' operating models for sales excellence



Where **no SFE function** exists, sales force effectiveness is naturally low and there is no geographic integration. Management therefore restricts itself to monitoring financial metrics and compliance with quantitative targets. SFE aspects play a limited role. If they exist at all, SFE functions tend to be local in nature, and local management shoulders full responsibility for sales excellence. Principles, tools and processes are likewise developed locally. Best practices are shared only within a country or narrowly defined geographic region, if at all.

A **decentralized SFE function** leads to a medium level of geographic integration combined with a high level of sales force effectiveness. This arrangement is commonplace at most large and mid-sized companies that operate SFE programs. Management monitors the implementation status of European/corporate programs and challenges existing sales practices continuously in the context of regular reviews. Where small SFE functions are centralized in a given country or region, the emphasis is placed on country implementation, albeit with the support of European/corporate management. Best practices are shared across Europe/the entire enterprise, "pull" strategies are applied and maximum leverage is gained from country managers as change agents.

Companies that operate a **corporate SFE function** maintain a high level of geographic integration and achieve a high level of sales force effectiveness. This model can be found in certain large companies that focus on specific levers. Management monitors a detailed set of metrics and compares them across geographical areas and/or business units. Uniform principles, tools and processes are compulsory in all countries. European/corporate management is responsible for sales force effectiveness. Best practices are "pushed" and shared across Europe and throughout the enterprise. The organization's existing set of compulsory principles, tools and processes is constantly enhanced by new best practices.

#### **Key success factors for lasting impact**

Successful sales excellence requires relentless multi-year execution.

Whichever operating model is selected, it must accommodate a series of success factors that are essential to effective execution of SFE initiatives.

Drawing on its wealth of international project experience, Roland Berger Strategy Consultants has identified the following key success factors:

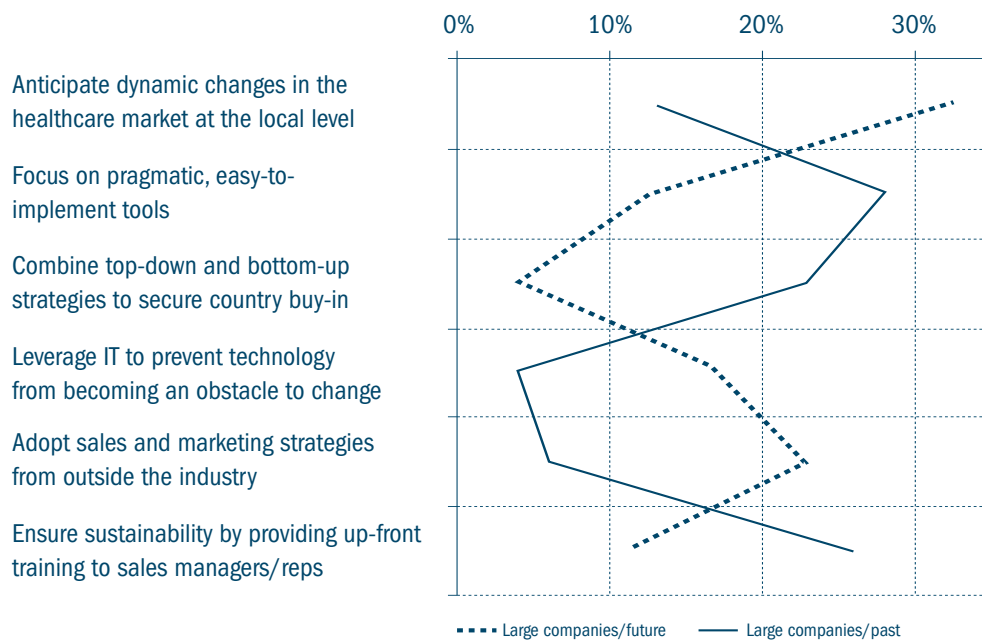
- > Anticipate dynamic **changes** in the healthcare market at the local level
- > Focus on pragmatic, easy-to-implement **tools and strategies** over the next one to two years
- > Combine **top-down and bottom-up** strategies to secure country buy-in
- > Leverage **IT** to prevent technology from becoming an obstacle to change
- > Adopt advanced **sales and marketing** strategies (such as life cycle value) from outside the pharmaceutical industry
- > Ensure sustainability by providing up-front **training** to sales managers and sales reps

We asked the study participants which key success factors of SFE had contributed most to lasting impact in Europe over the past two years, and which they expected to be most relevant to lasting impact in the next two years (see figure on next page).

**Key success factors for lasting impact (% of all answers)**

*Which key success factors of sales force effectiveness contributed most to lasting impact in Europe over the past two years?*

*Which key success factors of sales force effectiveness will be most relevant to lasting impact in Europe in the coming two years?*



At mid-sized companies, the factors that were the key to lasting impact in the past – pragmatic, easy-to-use tools – will remain the same in the future. In addition, training for sales managers and sales representatives remains extremely important, as does combined implementation of a top-down/bottom-up strategy to secure country buy-in.

Conversely, the key success factors that large companies identify for the future are very different to those cited in the past. Whereas tools and combined top-down/bottom-up strategies proved to be the most important key success factors in the past, they will in future be replaced by the ability to anticipate dynamic changes in the healthcare market at local level, as well as by appropriate training and IT.

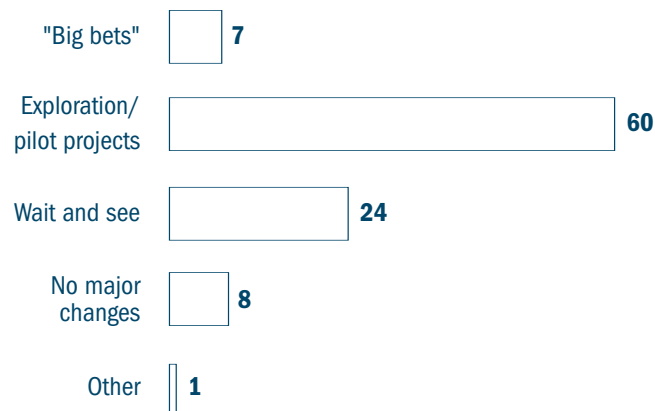
## Cautious pharmaceutical managers in a world of opportunities

One key objective of our survey was to gain insights into the readiness of the pharmaceutical industry to fundamentally question existing sales models in light of ongoing dynamic changes in the healthcare industry (see figure). To what extent are traditional sales models going to change in the immediate future?

A glance at the results shows that, while the industry today is still cautious about sweeping, revolutionary changes, it is nevertheless slowly beginning to explore new ideas and innovative models. Although only 7% of respondents believe that new sales models will be rolled out in the next two years, the majority of interviewees expect that focused pilot projects will indeed gradually pave the way to new business models. On the one hand, this indicates a very cautious approach to modifying proven sales and marketing methods in the immediate future. In pharmaceuticals, "big bets" are evidently the exception rather than the rule. On the other hand, the leading companies are quite clearly already preparing for the future. It is the "experimenters" who will gain first-mover advantage in the years ahead.

### Readiness for new business models in the next two years (% of all answers)

*How innovative will pharmaceutical companies be in sales and marketing in the next two years in Europe?*





These conclusions are supported by two key findings of the qualitative interviews we conducted across Europe following the eyeforpharma conference. First and foremost, pharmaceutical companies are getting "back to basics" – and focusing on getting them right. As they concentrate on the traditional virtues of sales excellence, however, they are also anticipating new SFE trends.

### **Getting the basics right**

In the discipline of sales force excellence, small and seemingly simple steps in particular can make all the difference. Most companies, for example, continually seek to improve the effects of targeting by focusing on high-potential physicians. This strengthens the relationships between physicians and sales representatives and ensures continuity. Companies are also learning to be more consistent about the way they apply efficiency benchmarks, such as the number of calls per day. Other metrics too (such as the number of training days per sales rep/per first-line manager) are being monitored more rigorously. Equally, pharmaceutical companies are working on making their sales activities more effective by investing into skill development and training to enhance call quality, for example.

### **Exploring new sales models**

At the same time, pharmaceutical companies are increasingly experimenting with innovative sales models. Not all these ideas will be appropriate for every industry player. Each company must therefore identify which approach is most suitable in light of its own strategic context and priorities.

One strategy is to draw significant **distinctions within the sales force structure**. The initial step involves hiring sales representatives who have a less sophisticated educational profile and deploying them to cover general practitioners. Their lower skill profile will significantly reduce costs. Then, over the next five years, these reps could possibly be replaced by more cost-effective communication media. In a second (simultaneous) step, companies are also building a small "elite" sales force that will target specialists – the drug companies' "true partners". Investing in significant skill development and differentiation beyond a mere knowledge of diseases and products may prove to be necessary as this model unfolds. In this context, some companies are going in the opposite direction. They develop their sales reps into true "business reps" that are measured by their territory results (incl. e.g. return on investment) and make them fully responsible for all activities in their territories, across all stakeholders.

Another strategy currently being explored is to focus on new, **more cost-effective promotional channels**. This involves concentrating the primary sales channel on the top 10% of physicians while using more cost-effective channels to serve lower potentials. The latter channels could include interactive e-mails or e-detailing. Direct-to-consumer (DTC) advertising for indications can be applied if it proves to be necessary for the patient flow, e.g. to increase symptom/treatment awareness.

As we have seen, the business environment within which pharmaceutical companies operate is changing rapidly. Accordingly, it is vital to keep a close watch on regulatory changes and to specifically address and cultivate **emerging stakeholders and influencers**, such as nurses (in the United Kingdom) or payors. Some of the interviewed managers have already started to explore this option by demonstrating, communicating and delivering greater value to payors. There are many ways in which this can be done. Companies can improve their regulatory affairs and lobbying work, for example, or invest in evidence-based medicine trials and pharmacoeconomic studies.

Either way, there is no question that the trend toward greater customer concentration must be monitored carefully and addressed appropriately. New hospital (purchasing) groups, for instance, will almost certainly require **key account management**. In addition, the interviewed companies are placing more and more emphasis on catering to the needs of patients and identifying ways to generate value for them, such as through **disease management programs**.

Increasingly, companies are systematically measuring their **return on investment** in order to optimize the promotional mix. This practice involves focusing on individual campaigns but including multiple promotional elements. To observe real impact, it may be necessary to invest heavily in such "measured campaigns". Pilot projects in relevant local markets could help to identify which tools work best, so that key success factors can then be adapted for international roll-out. Once the actual impact and corresponding return on investment have been observed, budgets can be reallocated accordingly.

Another trend is to **synchronize the promotional mix** across all channels. Pharmaceutical companies are beginning to explore new channels to complement their existing sales force. Closer collaboration between Sales and Marketing can be extremely beneficial, as appropriate CRM platforms help to automate campaign management.

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Last but not least, a number of companies have started to make their **sales and marketing organizations more flexible**. Contract sales organizations (CSOs), for example, can be leveraged especially in countries with restrictive labor laws, as they can potentially reduce hiring risks. Moreover, pharmaceutical companies can guarantee the productive use of detailing resources by in-licensing products if the sales force is underutilized. Similarly, detailing peaks can be covered by leveraging external partners – through collaboration with CSOs or co-promotional partners, say. Some companies are also looking to identify new solutions for late-stage products – for example through performance-based out-licensing – in order to free-up resources for new launches.

## Mapping out the road to sales excellence

The study made clear that, with the pharmaceutical industry experiencing extensive changes, companies across Europe are indeed taking a second look at their sales models. And many of them are evidently adopting a dual strategy. As they seek to revive traditional SFE virtues and get the basics right, they are embedding these efforts in structured sales excellence programs that are typically managed or at least coordinated by a pan-European function. The days when sales excellence was an issue for national organizations only are clearly over! At the same time, companies are increasingly exploring innovative sales models with a clearly defined scope that allows them to measure potential benefits and risks within a pilot setting. Obviously, not all these ideas will be appropriate to every industry player. There is no silver bullet for sales excellence. And only time will tell whether some of these new models are truly workable. Even so, pharmaceutical companies are well advised to begin experimenting early in order to gain first-mover advantage – and to make sure they don't miss the boat.

Each company must draw up its own sales excellence roadmap. Based on its own global project experience, Roland Berger Strategy Consultants has nevertheless distilled a number of guiding principles that have repeatedly proven helpful in addressing the challenge of change management:

### **Be pragmatic and flexible!**

To begin with, pharmaceutical companies should start implementing pragmatic, easy-to-use principles, tools and processes to foster sales excellence across the organization. When launching transformation programs, it is very important to make them flexible and modular. This gives general managers the opportunity to focus on those areas that will deliver the strongest impact. It is also vital to involve first-line managers at an early stage to secure their buy-in and leverage their commitment during implementation.

### **Get it done!**

However, if they are to generate a lasting impact, we believe that pharmaceutical companies must ignite change by means of a very carefully designed integral transformation program. They must also invest in training key change agents across the organization to continually foster cross-fertilization across national borders. In addition, it is crucial to maintain the momentum for change by installing a global or regional sales excellence function.

**Explore and learn!**

Once the basics are done and a change management program is initiated, pharmaceutical companies should actively experiment and pilot innovative sales models. This will help them recognize and secure competitive advantages as first movers. For instance, they should aim to integrate and optimize all promotional activities across the sales and marketing spectrum. Further innovative steps include beginning to measure the return on investment generated by promotional activities and consequently addressing new, emerging stakeholders.

To breathe life into these guiding principles, Roland Berger Strategy Consultants has developed and – on many occasions – successfully executed a comprehensive and modular strategy to attain sales excellence including four key steps.

**Step 1: Frame the scope of change**

Perform extensive tailor-made analysis, such as qualitative benchmarking with (external) best practices, to select the levers to be activated

**Step 2: Define the SFE model**

Define key principles, e.g. identify the most valuable targets and address them effectively, including the use of best practices (such as the hospital life cycle value assessment model, involving the ROI calculation tool)

**Step 3: Validate the model in the field**

Build momentum for change by securing and communicating "quick wins" with measurable impact (such as a key account management function for hospital (purchasing) groups)

**Step 4: Launch implementation**

Drive change through the local sales and marketing organization, e.g. by training general managers and their teams, analyzing local weaknesses and formulating action plans

**Roland Berger Strategy Consultants' qualitative SFE assessment database**

**Country assessment diagnostic tool (illustrative)**

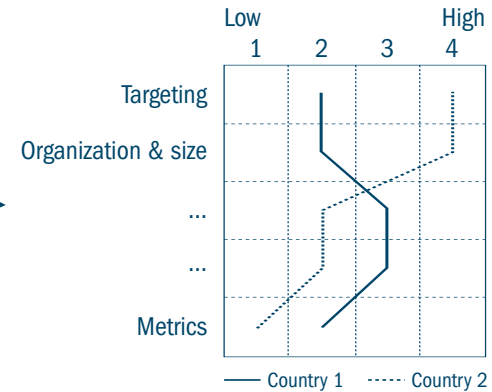
Lever 1 of X: Targeting  
 Lever 2 of X: ...

Statements	False		True		Don't know
	--	-	+	++	
> 1 of Y We use ...	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
> 2 of Y We specify...	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
> 3 of Y We measure...	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- > Roland Berger's SFE assessment database
- > Focused set of analysis questions per lever

**Levers**

**Implementation level**



- > Consolidated assessment per lever
- > Complemented by qualitative input on country examples

The first step is being supported by an extensive qualitative SFE assessment database (see figure). Roland Berger is able to support pharmaceutical companies at any point in the process, in line with their specific requirements. Initial steps focus on identifying the need to change and defining the SFE model across countries. The focus then shifts to validating the newly defined principles in the field. Finally, implementation is launched to realize the targeted outcomes.

## Sources

- > Roland Berger survey at eyeforpharma conference 2006
- > In-depth interviews with specialists from 15 international pharmaceutical companies across Europe
- > Roland Berger sales force effectiveness projects
- > Desk research

## Survey participants

<b>Total participants</b>	236	
<b>Relevance</b>	50%	Large and mid-sized pharmaceutical companies
	50%	Other (e.g. suppliers)



<b>Global revenues</b>	47%	Large companies: revenues above USD 15 billion
	53%	Midsized companies: revenues between USD 1 billion and USD 15 billion
<b>Main geographic responsibility</b>	63%	Country-specific
	37%	Other
<b>Functional role</b>	39%	SFE
	61%	Other (e.g. country managers, marketing executives, sales executives, HR executives, etc.)

## Who to contact



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