

The Mix

Strategies, tactics, insights and opportunities

New Models of Excellence

Stephan Danner, Aleksandar Ruzicic and Martin Oelschlegel discuss the results of a recent study surveying attitudes to 'commercial excellence' in the pharma industry.

The commercial operating model traditionally used by the pharmaceutical industry is under growing strain. Financial pressure, regulatory changes and an increasing number of decision-makers in the healthcare sector are among the factors calling into question the industry's current approach. Companies must now look towards 'commercial excellence' if they want to succeed in these turbulent times.

Commercial excellence was the subject of an interactive study (conducted by Roland Berger Strategy Consultants at the 6th Annual Eyeforpharma Sales Force Effectiveness Conference [2007]), which surveyed over 250 participants and interviewed executives from more than 40 companies. This article presents the study's key results and examines new emerging business models.

A radical rethink

Since the end of 2005, ten leading pharmaceutical companies have announced cost-cutting programmes that have dispensed with 50,000 jobs. Many companies have downsized their sales forces by more than a third, while others are planning major cuts. Nearly 40% of respondents to the commercial excellence survey expected their firm to reduce the pharmaceutical sales representative headcount between 5% and 40% over the next two years. But cutting back the sales force is no longer a sufficient response to major market changes. Customer focus is also a decisive factor. Indeed, customers must become the central focus of operations. Commercial excellence must

therefore reach far beyond the activities of the sales force to embrace all commercial interactions with customers. Ultimately, it aims to optimize impact by maximizing profit contributions at all levels.

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The three dimensions of commercial excellence

Commercial excellence as we understand it has three dimensions: sales excellence, customer excellence and new business models. As outlined below, these can be distinguished based on their requirements for change and business impact.

Sales excellence. In recent years, sales excellence has become something of a standard in the pharmaceutical industry. Still, more can be done to increase sales effectiveness and efficiency. In fact, 85% of those surveyed believe that efforts to improve sales excellence could boost profits by 5% or more. According to the interactive survey participants, in the coming two years, the industry will focus on the traditional levers targeting call quality as well as performance and people. Since further improvements will continue to deliver

benefits, it is not surprising that the vast majority of companies are still investing heavily in sales excellence. These investments are very unlikely to decline in the future, as changes in the healthcare environment and competitive dynamics continuously alter the objectives of sales excellence.

Customer excellence. Customer excellence aims to maximise the impact of interactions with an ever-larger group of customers, including governments and other payers, providers and patients. The study revealed that the relative importance of individual and organizational stakeholders in the healthcare sector is shifting across Europe. While specialist doctors, opinion leaders, health authorities, payers and health insurers now exert greater influence, the power of general practitioners (GPs) is waning, and the majority of drug companies have taken these aspects into account. However, the potential of customer excellence lies in an integrated approach that should focus on the most promising areas. The commercial excellence survey and interviews showed that in light of new regulations and guidelines, customer strategy/customer relationship management (CRM) has great potential to increase profits. Other areas with strong potential include an aligned organisation; new functions such as key account management and market access; and optimization of the promotional mix.

As a result, the majority of pharmaceutical firms have been reviewing their customer strategies. More than 50% of the managers interviewed said that this shake-up would be critical to future

success. The study also revealed that companies are shifting their internal focus from product to customer management and restructuring their organisations accordingly. This move is often accompanied by an increased focus on market access functions and more professional account management. Moreover, the promotional mix is being geared to the industry's changing customer groups. On this point, over 30% of respondents foresee a stronger role for interactive channels (for example, call centres and online marketing) in the future.

Customer-focused business models. In light of challenges in the healthcare environment, 72% of managers believe that their companies will introduce a fundamentally new business model in the next two years.

Selecting the appropriate focus lays the foundations for the new business model. For each of the following six focuses, the company (or entity) must first decide how it wants to position itself. This depends on its products, customers and competitive situation; the subsequent decision lays the foundation for a company's new business model.

- from individual products to product bundles/portfolios
- from product to healthcare services

- from direct to indirect influence on prescribers
- from physicians to accounts
- from full in-house control to flexibility/externalization
- from a focus on sales channel to an emphasis on other channels.

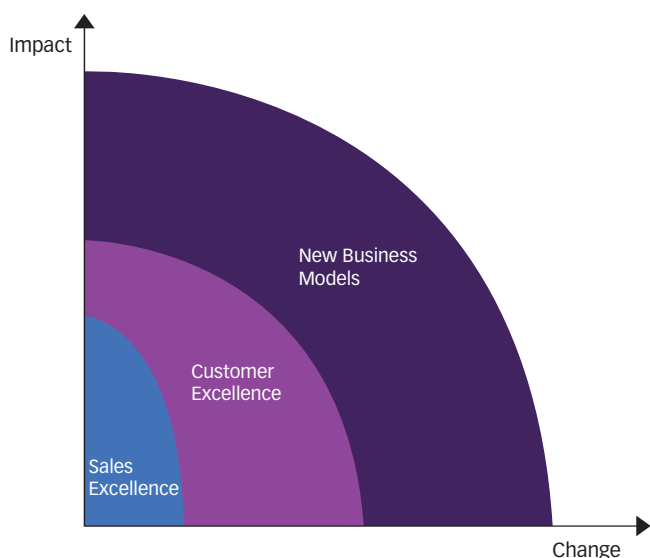
By favouring one dimension over another, the company defines the characteristic attributes of its new business model. For instance, the company can choose to focus either on accounts or on prescribers. Similarly, it can choose between the two extremes of individual product offerings or product bundles.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

When questioned on the focuses, 25% of respondents stated that their company was attempting to shift from physicians to account management. Other key focuses were forward integration into healthcare services (17%) and an evolution from opportunistic portfolios made up of individual products to bundled offerings (18%). 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 the selection of the most promising new business model. Far from it: "New business models will be

contingent on the situation, the products, the therapeutic area and the country."

Certainly, adopting a new business model is a long-term endeavour that requires careful evaluation of the relevant dimensions and potential for change. However, recent examples have shown that the benefits of adopting new approaches far outweigh the risks. Indeed, companies that venture out as first movers stand to reap handsome rewards, as they can erect high barriers against their competitors.

Figure 1: Impact versus change across the dimensions of commercial excellence.



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