Strategic trends facing the pharmaceutical industry and their implications for marketing skills development

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Abstract This short paper provides an overview of the challenges that pharmaceutical marketers face in a market that is undergoing enormous global change.

When considering the strategic issues facing medical marketers in the pharmaceutical industry, a good place to begin is by highlighting some of the skills development areas that have resulted from changes in the medical market. It is useful to briefly look back 100 years at the evolution of the disease process.

Pre First World War, infectious and parasitic diseases were the most common illnesses and killers and life expectancy was around 44 years of age. In the 1920s up until the 1960s, infectious diseases were still prevalent, but as vaccines and more powerful antibiotics were introduced, we began to see the emergence of heart disease and cancer, with life expectancy then increased to around 68 years.

During the 1970s and 1980s, there was still an increase in ischaemic heart disease, cancers and in cerebral vascular disease, but during this time came the emergence of new viruses such as HIV and AIDS. Despite this, life expectancy increased to approximately 73 years.

Nowadays, those who do not die of ischaemic heart disease or cancer, are likely to suffer from some sort of ageing disease, such as Alzheimer's or stroke. Alternatively, we may develop a disease associated with pollution, such as bronchitis or asthma. The good news is however, that life expectancy has now increased to 76 years. What this illustrates is that disease progression has changed quite remarkably over the last 100 years, and the pharmaceutical industry has had to change its approach to disease as a result of that.

In 2001, the world pharmaceutical market was worth about £364bn, a large proportion of which, around 50 per cent, comes from the USA. The US market is set to increase quite remarkably over the next decade, and it is estimated the annual growth rate of the world pharmaceutical market will be approximately 10 per cent per year between 2002 and 2006. Large companies and pharmaceutical giants are emerging through mergers and acquisition in a trend that will doubtless continue, as we also see an expansion of e-commerce in the pharmaceutical industry.

Despite, or perhaps because of this rapid

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growth in size and value, there are some significant barriers to entry in medical markets. For a start, the sheer scale and cost of entry are enormous. It is estimated that it now costs between US$500–600m to market a drug from the discovery of the molecule to the launch phase. A company needs not only the R&D ability to deliver those molecules to launch, but it also needs the resources to be able to withstand potential failure. Of the estimated 10,000 new chemical entities discovered every year, only one or two will make it to market, despite the investment of large sums of money in each of them at a pre-launch marketing phase.

Another significant barrier to entry is selling power and share of voice. Increased competition has seen an emergence of so-called 'mega salesforces', to try to increase the share of voice for each product launch. The result is a lot of marketing noise — all the manufacturers are shouting for their products to such an extent that, in the UK, it is now estimated that there is one medical representative for every three GPs. Salesforces have increased in size ten-fold in the last 10–15 years. GPs and doctors are bombarded constantly by sales messages from sales representatives. The marketing and selling of the salesforce is now the single most expensive part of the marketing mix in any global pharmaceutical organisation.

There are also a number of issues around R&D. In 2001, the pharmaceutical industry spent approximately US$56bn on the R&D of new medicines. In fact, the pharmaceutical industry is almost expected to spend a higher proportion of its sales revenue on R&D than any other high tech industry — higher than electronics or even aerospace. Europe accounts for a fifth of all R&D spend and, of that, approximately 40 per cent is spent in the UK through companies such as AstraZeneca, Glaxo and Bristol Squib. Today's high R&D investment means that the industry has more than 1,000 new medicines in development at any one time. Historically, the R&D process has taken around 10–12 years, from discovery of the molecule through the pre-clinical phase and trial periods and finally to the launch of the product. Within the industry today, the objective is to launch to market in an average of just 7 years, and some manufacturers are already striving to reduce that even further. One clear advantage in doing this for the manufacturers is that, by reducing the pre-launch period, they increase post-launch time before patent expiry, which enables a greater return on investment.

There are some enormous changes occurring in the pharmaceutical marketplace and, indeed, in the general global marketplace. There are huge changes in the biological science arena and in enabling technologies. This has resulted in an increase in R&D productivity from around one new drug every three years to three new drugs each year that is to say three entirely new chemical entity classifications, not me-too drugs, or drugs similar to those already on the market. In terms of selling and marketing, the massive boom in the US marketplace is, in part, what led to the emergence of the so called 'mega salesforces' mentioned earlier. Alongside this, Direct to Consumer (DTC) advertising has also emerged over the last 7 years, since the FDA changed its ruling. Although, in the past, manufacturers were prohibited from advertising directly to patients and consumers, television in the US now carries a myriad of description adverts for products from the pharmaceutical industry. The result is that patients now have much greater access to their own medical information and demand from patient to doctor has increased, in terms of what patients want and in terms of their drug requirement.

Pharmaceutical companies need to

become more focused with their customer groups. Historically, 'the customer' was defined as a primary care physician, some hospital specialists and perhaps a few nurses. Today there are three key types of customers: patients, doctors and payers (such as insurance companies and Primary Care Trusts). Just as customer focus has widened, so have these companies gained a deeper customer insight into what each customer group really requires.

Of course, not only is the industry itself changing and customer focus broadening, but the nature of the products themselves is also changing. Most large pharmaceutical companies will now only invest in what are called million dollar brands or mega brands, in other words, brands which achieve sales of, perhaps US$2m in their second year of launch. In 1995 there were only 15 such brands in the marketplace; by 2001 there were 49 and in 2002 there are an expected 54. The brands themselves are growing in size, to fit a growing market with growing salesforce and growing investment. Also these new products are becoming global faster. For example, it took nine years for Serocksat, a very successful anti-depressant, to be launched into 50 markets globally. Compare that with Viox, which took just two years in 1999 to reach the same number of launches across the world.

Industry growth over the last couple of decades has been fuelled by demographics and an ageing population. Attitude and entitlement has changed, with DTC and the Internet. Patients now have better access to information about drugs and, not surprisingly, they ask their GP for the newest and latest drug, which just happens to be the most expensive in most cases. Consumer access to information has been important to the pharmaceutical industry, as has the fact that there is an increasing number of third-party payers and insurers in the picture to pay those bills. This is culminated in a clash of what seems to be a limitless demand for healthcare and unlimited ability or even willingness to pay. As a result, the pharmaceutical industry has become a major target, partly because of its high visibility and partly, too, because the UK health-care drugs bill is growing by 10 per cent per year and it looks like an easy budget to cut.

For pharmaceutical companies however, it is not so straightforward. Investor expectations are very high. Gone are the days when investors in pharmaceuticals were relatively unconcerned about company performance. Investor expectations now quite heavily influence company strategy and how the company performs. City analysts often know more about the companies than the employees. If those all-important investments are to continue, then it is vital that the pharmaceutical companies continue to deliver the earnings per share that is expected for the industry.

Looking at the sort of marketing skills issues that have faced the industry over the last couple of years, the first thing to note is that, with the emergence of pharmaceutical giants and globalisation of the industry, marketing truly now has to be addressed on a global scale. Gone are the days when each company in each country could develop its own marketing and sales strategy. More than ever now, marketing in practice stems from the centre of the organisation and is the transference of global practice, to local affiliates. A prime example of that is the development of global branding, which the pharmaceutical industry has increasingly embraced. There is also a trend towards local privatisation — global product privatisation is no longer a viable option. Training also includes the general skills needed to develop people through executive, commercial and senior training and many in depth marketing skills areas now need to be addressed at both a global and local level.

Customer insight is becoming increasingly important in the pharmaceutical industry, because patients are now a recognised customer group. It is now necessary to understand the latest needs of patients as well as doctors. An understanding of safety and efficacy, which was once viewed as 'customer insight' in the pharmaceutical industry, is no longer enough. And, of course, customer insight is further complicated by the development of global brands, as there is now the need to consider global consumer examples to ensure that global brands can effectively be developed.

In terms of skills development, sales effectiveness is critical. Pharmaceutical companies now rely more heavily than ever on their salesforces and, with the growth in size and spread of the salesforce, it is essential to ensure a consistent quality, calibre and motivation of those people who are relied upon to hit the right doctors with the right messages.

On a more general theme, there is a need to develop what are sometimes called boundary-spanning skills. The need for these skills comes up time after time — in cross-functional, cross-cultural and cross-geographical working. There are now more and more 'virtual teams', where colleagues in a single team may be based in different countries or different areas of the business. It takes specific skills to ensure the effective working of such teams. As an example of the many in depth, specialist skill areas, there is a massive need for opinion leader development of global brands at the pre-launch stage. It is critical that opinion leaders are on board to ensure an established brand vocabulary among those global opinion leaders. The Internet is one way to achieve this, but for a pharmaceutical giant with, perhaps 800 websites worldwide, there are efficiency considerations and also the matter of direct-to-consumer campaigns and advertising.

At a strategic level, with the growth of billion dollar brands and the huge amount of money being invested in this industry in the UK alone, we need to ask whether we are really equipped with the skills and the practice to be able to launch those brands. AstraZeneca is not unique with its objective to launch five brands in two and half years, so what is the impact of that on successful launches in the marketplace and within the marketing companies? What are the implications of such objectives in terms of the capabilities and skills required to achieve those product launches?

Another very important requirement is the need to look into investor relations and to have an understanding of what the City expects from the company at a senior managerial level. Another skill gap may be global business finance — how does your company work its business finance on a global basis?

Finally, there is the issue of attracting and retaining the best people in the industry, which is critical to the success of any organisation and is also a very real problem in the pharmaceutical industry at the moment. Developing the skills of employees is now seen as one of the attractions of a good employer and ensuring good personal skills development acts as a retention tool for good people.

In conclusion, it seems likely that it will be the large global companies that will succeed, just on a cost and volume basis. The *most* successful, however, will be those with good communication and consistency of key messages. They will need to develop global brands with sustainable long-term competitive advantage. They will require absolutely a solid pipeline of new chemical entities through 10–20 years in the future. With that increased accountability, however, also comes a sound corporate responsibility.