

Strategies for success

Once a drug has cleared all its clinical and regulatory hurdles, it still has one final leap to make – success in the marketplace. Drs Eckhard Kucher and Volker Janssen explain how a new product can achieve its full potential through sophisticated market entry strategies

Pharmaceutical R&D is an increasingly risky business. While global players such as Pfizer, Glaxo-SmithKline and AstraZeneca spend between US\$3.1-5.2 billion annually on R&D (15-18% of total annual sales),¹ the failure rate of multinationals in getting new drugs to market often still exceeds 90%. Even global market leader Pfizer faces an R&D failure rate of 96%.² Inevitably, then, the drugs that finally make it to the market must compensate for many failed products and generate profitability for the whole organisation. So how can a pharma company best exploit the market potential of its new products, given the fact that most are not 'self-sellers'?

Unless a new drug is entering a niche market (where need still has to be created), it already faces fierce competition. With huge upfront expenditures for any new prescription product, market entry strategies must be a top-priority – they are vital to market success and to recovering both R&D and marketing costs.

Depending on the marketing and sales competence of the manufacturer and the perceived competitive position of the drug, different types of market entry strategies can be used, ranging from market protection to differentiation and cooperation strategies.

A good example of a successful market differentiation strategy is AstraZeneca's US launch of Crestor, its much vaunted treatment for cholesterol. In August 2003, the launch opened up one of the biggest marketing battles the pharma industry has ever seen. AstraZeneca CEO Tom McKillop was aware of the need to spend big to establish Crestor in a US cholesterol market clearly dominated by Pfizer products. The stage was set for a marketing onslaught that will probably cost the company around US\$1 billion in Crestor's first year. By the fourth quarter of 2003, Crestor had already achieved a 4.6% market share of new prescriptions in the US.³

A similar success story, this time using

a market protection strategy, can be seen in the COX-2 market, where another fierce battle for market share took place. In Germany, as in most other European countries, Pfizer/Pharmacia's Celebrex was second on the market behind Merck's Vioxx. Pfizer/Pharmacia spent more than €40 million to push Celebrex in the German market, but Merck defended Vioxx' market share by virtually maintaining its previous marketing budget of almost €50 million. As a result, Vioxx' market share based on volume in 2001 was still more than twice Celebrex' share, even though Celebrex had by then been on the German market for almost two years, with large sums spent on its marketing support.

Tailored strategies

The bad news concerning the launch of a new prescription drug is there is no market entry strategy template that serves all companies and all products. And strategic mistakes that lead to substantial profit losses can be observed quite frequently. To take just one example, Eli Lilly's first insulin analogue entered the market with a price which was clearly too low. According to senior Lilly managers, on realising the error they set out to increase prices quickly – more than 30% in two years in the US.

However, this action wasn't possible in Europe's price-controlled countries, and a lot of potential profit was left on the table. Obviously the perceived value and future potential of the product had not been recognised or properly communicated prior to launch.

The good news is that smart and tailored strategies can contribute substantially to market success. A perfectly tailored market protection strategy can sustain the superior competitive position of a drug, preventing potential new competitors from entering the market or even forcing existing competitors to leave the market. This is particularly important if the drug does not immediately face major competitors, or is the pioneer in a new substance class, but major new competitors are on the horizon. In this instance, time to market is a critical factor for success. In Merck's case, for example, although the company had only a couple of months to protect its market before the entry of Celebrex, its market protection strategy was hugely successful in defending Vioxx' German market share. Merck exploited Vioxx' first-mover advantage and remained the clear market leader.

For late-follower drugs in highly competitive markets (eg statins, COX-2s, atypical neuroleptics and erectile dysfunction), a market differentiation strategy should typically be adopted, since in such markets the new product is not a self-seller. Differentiating the drug from its competition is vital to achieve subsequent competitive strength. Small, objective product advantages should be exploited on a large scale, by putting a strong and consistent focus on these advan-

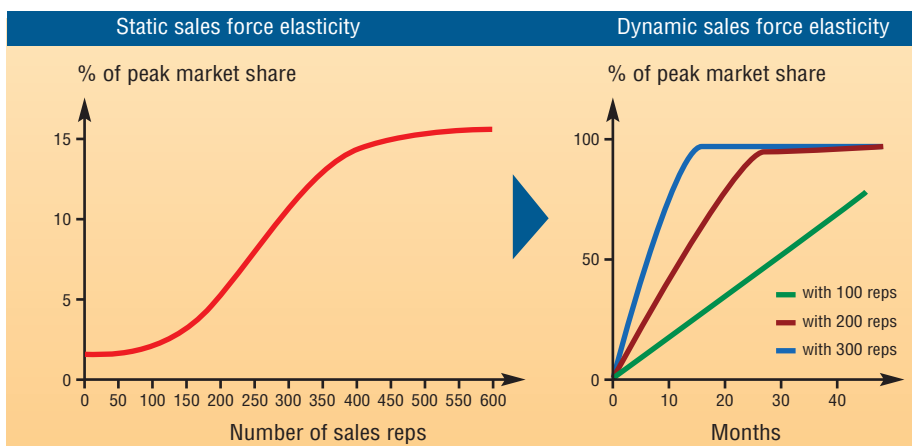


Figure 1: Quantifying both the static and dynamic aspects of salesforce elasticity is crucial to determining the salesforce size needed to market a new drug.

tages in all product-related marketing activities. This is exactly what AstraZeneca did with Nexium, the successor of Prilosec, their bestselling heartburn drug which faced patent expiry. Knowing that Prilosec generics could not be fended off forever, AstraZeneca spent half a billion dollars a year to convert Prilosec users to comparably priced Nexium by focusing on marginal product advantages. The strategy worked. Prilosec lost 27.9% in prescription volume, but Nexium surged 249.5% to grab an 18% share of the US proton pump inhibitor market in just a few months, while patent challenges kept generic omeprazole off the market long enough to ensure Nexium's rapid market uptake.⁴

However, a prerequisite for the success of both market protection and market differentiation strategies is strong marketing expertise and sales power. If the sales and marketing competence of a company is relatively low, it might not be possible to fully exploit a new drug's market share potential using the company's own resources. In such cases, to penetrate the market successfully a cooperation strategy should be considered. Critical decisions then have to be made on the choice of a potential partner and the type of cooperation: co-marketing or co-promotion.

A matrix of competitive advantages and

a competence matrix can help substantially in the choice of a strategy type, as well as providing guidance for the design of the strategy. Analysis of competitive advantages might indicate that Product X would hold a strong competitive position if it performed better than its competitors in certain very important decision criteria, for example, analgesic efficacy and speed of onset. Any disadvantages, such as more frequent dosing, would be perceived as less important. At the same time, however, a competence matrix might indicate weakness in salesforce size and competence – prerequisites for market success. In this situation, a manufacturer would aim for a cooperation strategy with a clear focus on analgesic efficacy and speed of onset, while a potential partner would be required to bring in the necessary salesforce size and competence.

Establishing the process

The key to developing successful market entry strategies is to establish a process of building strategic intelligence. This process has to start with the optimisation of marketing functions such as positioning, pricing, salesforce support, and communication. Elasticities – how sales volumes respond to both salesforce size and price variations – need to be measured and quan-

tified. These can then be input into a sales forecast model. The reliability of a model that incorporates all relevant marketing functions is clearly higher than one which relies on any single function.

As well as the elasticities of the marketing instruments, carry-over or time-lag effects can be included in such a model, ensuring a realistic prediction of the new product's future market share development. This is especially important for products which treat chronic conditions such as diabetes or arthritis, where doctors often have a strong preference for certain products and are reluctant to switch treatment.

It is then possible to evaluate different strategic options in terms of market share, revenue and contribution development over time by varying the positioning, the price, the level of salesforce activity and the promotional budget. The 'what-if' analysis capability of such a model makes it a key tool for developing the business plan for a new prescription drug. It calculates necessary investments, provides insight about the optimal resource allocation and priority settings, and determines the net present value of the new pharmaceutical.

Of the various marketing functions, price and salesforce size are the most important. Both usually have relatively high market share responsiveness. For example, physi-

Market access: a case study

In 2002, an international pharma company with a successful range of cardiovascular products planned to introduce a new angiotensin-II receptor antagonist into the German market. At the time, the hypertension medications market was characterised by two classes of substances – older ACE inhibitors (branded and generic) and newer A-II antagonists. Because of their excellent efficacy and low cost, ACE inhibitors were dominant, and widely used as first-line treatment. However, 'new' A-II antagonists were expected to catch up, particularly because of their superior side-effect profile and the strong and ongoing need for well-tolerated antihypertensive drug therapies. The new A-II antagonist had to be considered as a 'late follower', since numerous A-II antagonists were expected to already be on the German market.

A study was set up to develop a sales forecasting model for the new A-II antagonist in order to evaluate various strategic options for market access. The process of developing this model started with the collection and analysis of historical IMS data on both the ACE inhibitor and the A-II antagonist market. It was aimed at obtaining a basic understanding of the nature of the market response relationships in the German A-II antagonist market, ie price, salesforce response and response to promotional activities. The results of the market response relationships were challenged and, if necessary, adapted in expert workshops with sales representatives and physicians. The workshops were also used to evaluate various cooperation strategies. Based on insights from multiple sources and methodologies, the forecasting model was finally derived and calibrated.

After evaluating all possible strategic options for market access with the sales forecasting model, the company chose an aggressive market access strategy in Germany to overcome the disadvantage of being a latecomer. The new drug was priced significantly lower than the other A-II antagonists, but still kept a substantial price premium over the old ACE inhibitors. Given a very high price elasticity for A-II antagonists and the fact that high prices were seen as a major growth barrier for this drug class, this pricing strategy was aimed at supporting high and rapid market penetration. In terms of salesforce support, the company decided to slightly exceed the high benchmarks set by the competition, since salesforce power was demonstrated to have a great positive impact on the prescription share development. To achieve this high salesforce pressure, the company marketed the drug in a co-marketing agreement which secured its own visibility. Finally, minimal promotional activities were conducted to generate product awareness among physicians, since no measurable effect of promotional activities on the prescription share development of A-II antagonists could be observed.

The results were more than satisfactory. Development of actual market share almost exactly matched that of the forecasting model. After just one year, the new drug's market share jumped to more than 10% based on volume. It reached its peak market share after just 14 months on the market, clearly overcoming the disadvantage of being a latecomer by analysing the market needs and developing a market entry strategy that dovetailed with the capabilities of the company.

icians' price elasticity in free-pricing countries such as Germany, the UK and the US is estimated to be about 20 times higher than communication elasticity. Additionally, with high and rising salesforce costs, pharma companies have to be able to calculate the optimal salesforce size for a new product.

The most important tools for measuring price elasticity are still indirect trade-off techniques used in the context of customer interviews.⁵ But even with these methods, the impact of various salesforce sizes on physicians' price elasticity cannot be measured adequately. Physicians' responses to the importance of salesforce details must be seen as strongly biased, since professional ethics tend to make them describe salesforce support as irrelevant when deciding to prescribe certain drugs. Nevertheless, the optimal price range as derived from a trade-off-based simulation model can be interpreted as the result of price optimisation, assuming average salesforce support for the new drug.

Salesforce elasticity has two aspects – a static and a dynamic one. Quantifying both aspects is crucial in finding the optimal salesforce size for a new drug. Static salesforce elasticity addresses the impact of various salesforce sizes on the resulting expected peak market share of a new product (see Figure 1 on page 15, left chart). Dynamic salesforce elasticity addresses the development of the new product's market share over time. The aim is to calculate how quickly the new product will penetrate the market at different levels of salesforce activity (see Figure 1, right chart).

Building intelligence

The collection and sophisticated analysis of comprehensive data are vital to optimise marketing functions and forecast sales. To provide reliable and detailed information, a multimethod/multisource approach is required (see Figure 2 above). This allows for data cross-checks and ensures valuable input for the process of building strategic intelligence.

Pricing and value information, ie price elasticities, value drivers, reimbursement barriers, etc, is usually derived from large-scale quantitative physician surveys and small-scale qualitative surveys with opinion leaders and payers. IMS data and internal expertise serve as basic sources for optimising salesforce size and communication spending. IMS data can provide information on the relevant competitors' salesforce support and sales volumes and, by using regression analyses, insight into the fundamental quantitative relation between salesforce support and market share can often be gained.

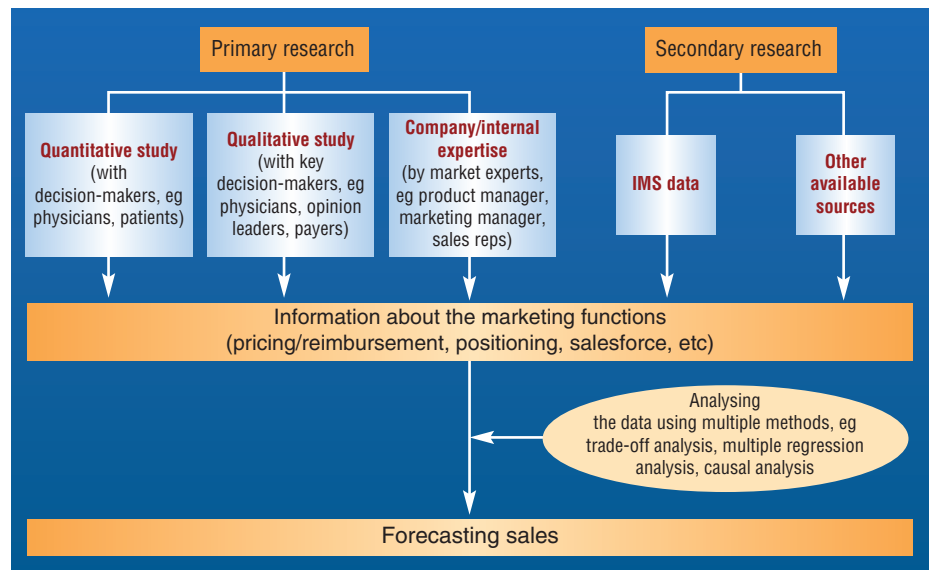


Figure 2: Building strategic intelligence and obtaining accurate sales forecasts requires the compilation and expert evaluation of data from several key sources.

However, the analysis of secondary statistical data has intrinsic problems that impair the reliability of the results. If the new product is a pioneer drug in its indication, no data on direct competitors will be available and, although corresponding data on products in other indications can be used, the extent to which such comparisons apply is debatable. Furthermore, the level of salesforce support for products on the market often does not vary enough to determine the salesforce response adequately, particularly if these products have been on the market for a limited time. Lastly, it must be pointed out that the analysis of secondary statistical data reveals information about the past. The influence of future market events, such as the entry of new competitors or changes in healthcare environments, on the relation between salesforce support and market share of the new product is not taken into account in these calculations.

Apart from these drawbacks, one of the main problems with analysing secondary statistical data is that it is almost impossible to determine the impact of different price scenarios on salesforce elasticity. Because of this, further field research should be conducted, and workshops with sales reps are recommended, particularly as sales team members can often estimate the intensity of salesforce activity needed to achieve a certain market share in a certain length of time.

As well as these data requirements, strategy expertise and excellent methodological skills are critical for developing successful market entry strategies for new products. The data should be analysed using multiple methods, such as trade-off,

regression and causal analyses. The results then have to be correctly interpreted for various marketing functions – eg positioning results, pricing results, salesforce support results – to evaluate how these contribute to the overall picture. For this, a company needs in-depth strategic understanding of previous market events, such as the success and failure of competitors, and a comprehensive understanding of the impact of potential future market events, such as new competitors, market growth and healthcare reforms.

As can be seen, successful market entry strategies integrate all relevant marketing functions, particularly market share reactions to variations of price and/or salesforce support. Building intelligence about these marketing functions – by collecting data from multiple sources including physicians, internal expertise and IMS data, and by using multiple methodologies – is clearly crucial to ensure full market access for new prescription drugs. SM

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•Dr Eckhard Kucher is co-founder and president, and Dr Volker Janssen is a director, of strategy and marketing consultancy Simon, Kucher & Partners, based in Bonn, Germany.