For the merely large, it's back to basics

by Martyn Postle

As Pfizer starts in earnest to integrate Pharmacia into its strategy and infrastructure, it will also be considering what it can now do with $46bn of revenue and 11% global market share that it couldn't do with a $32bn turnover and 8% share.

I am sure that Pfizer's competitors will also be wondering what Pfizer will do, which could lead some of them to contemplate further marriages (particularly some of the "serial polygamists" such as Glaxo, Aventis and Novartis).

We now have a situation where the top 2 players command 18% of the market. Just over a decade ago it would have taken the cumulative sales of the top 6 companies to reach that share. Just imagine will happen when we get to 3 companies with over 10% share each. They could change the playing field for everyone.

So far the mega-mergers that have taken place in the pharmaceutical industry have led to the enlarged companies just doing more of the same - using their enhanced muscle to out-spend and out-shout their competitors. None of them has really tried to break the mould and examine whether their new size enables them to change the dynamics of the marketplace. None has tried to radically restructure the way in which they build their pipelines, build demand for their products and get their products to patients and consumers.

Should they choose to do so, giant companies would be able to interact with the value chains of their suppliers (in order to access and finance innovation) and their customers (in order to bring medicines to large global patient groups) in fundamentally different ways. When they choose to do so, smaller companies (defined as anyone outside the top 5) will need to reassess the way in which they compete.

Despite Pfizer's new size, ours is still a relatively fragmented industry. In other "global" industries such as automotive, telecoms, oil exploration and consumer electronics, which have undergone far more consolidation than pharmaceuticals, the giant companies have used their muscle to lock in suppliers and customers through gains in economies of scale which have left their smaller competitors at a serious competitive disadvantage.

Today Pfizer has 10,000 sales reps in the USA. Any company that competes in Pfizer's main therapy areas will need to fundamentally re-assess the way in which it markets its products.

The challenge of the giant competitor is not the only problem facing "merely large" companies today. The industry is currently being attacked from several quarters for continuing marketing strategies that some outside observers are now calling excessive and "contributing to the overuse and misuse of drugs" (according to a recent study by the Stanford Center for Research in Disease Prevention). That study also concluded that "the most dominant drug-promotion strategies are traditional, time-tested methods" (such as prescriber-focused sampling and detailing). In other words, the industry is not doing anything any different today, it is just doing a lot more of it than it used to.

A similar attack is underway in Europe with a recently published "special edition" of the British Medical Journal in which the authors concluded that patients would benefit from less involvement between pharmaceutical companies and the medical profession. They also commented that, "drug companies have got to learn how to win friends without having to buy them, and doctors have got to learn to value their profession's credibility without having to sell it".

Perhaps it is time to look for new marketing strategies.

In the past I have worked with a number of smaller biopharmaceutical companies who have wanted to establish their own marketing infrastructure from scratch. In each case we adopted a customer-focused and not a competitor-focused approach to determine what was needed. We first identified who would be the customer groups whose behaviors would have to change if the product was going to be successful. We recognized that many of these groups would not be traditional customers, but influencers of the prescribing decision process. Secondly we looked at the criteria that these groups use to determine their behavior. Finally we determined a cost effective marketing strategy that delivered these criteria to the key groups.

Not surprisingly we didn't conclude that building a gorilla sales force to go head-to-head with Pfizer was the right solution!

I suspect that even if large companies followed such a "first principles" approach they would conclude that current sales and marketing infrastructures are not what they should have today, particularly given the complexity of interactions between prescribers and influencers of the prescribing decision process.

I believe that every company should be investigating innovative, differentiated marketing strategies, and not just chase share of voice in "old school" marketing mix areas. Companies need to think beyond out-spending and out-shouting the competition and have a fundamental re-think about the best ways to influence customer behavior.

The marketing paradigm isn't the only thing being changed through the emergence of giant companies. I think we are also seeing an increasing disconnect between the research strategies and development strategies of the largest companies.

As companies grow larger so does the commercial hurdle rate that is applied to projects coming out of research before they are moved into clinical development. When I started in the industry over 20 years ago, a potential \$250m product was an attractive proposition. Today, even a \$1bn peak sales potential is only marginally attractive for some companies in some therapy areas.

So what happens to the rest of the output from large company research engines? Usually nothing. I have yet to meet a large company where out-licensing is perceived to be as career enhancing as in-licensing.

This is perhaps surprising. Last month the Tufts Center for the Study of Drug Development increased their estimation of the cost of bringing a new product to market to \$897m. This figure, of course, includes the cost of failure which we have estimated to account for around 70% of all R&D spend.

Perhaps it is time to look for new R&D strategies as well.

Perhaps those companies that are merely large should be looking to develop new structures in which smaller product opportunities can be exploited, rather than pursue an exclusive "blockbusters or bust" strategy. At the very least, they should consider "clearing the shelves" of products that are not commercially attractive for them. They may be able to realize a considerable amount of value by out-licensing or selling them to companies with smaller peak sale hurdle rates.

Regardless of the size of your company, I believe you should be thinking beyond traditional "gorilla" R&D and marketing strategies and thinking of how you can adopt "guerrilla" strategies now. When the giant companies decide to use their size to change the rules of the game, then you will have no choice.

It takes guts to be different, but the returns on investment can be significant.

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