A Prescription for Change
The New Go-to-Market Model for the Pharmaceutical Industry
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Executive Summary

- The go-to-market model in the pharmaceutical industry is at a true inflection point; the model is no longer sustainable due to the convergence of market evolution and intense regulatory, policy and economic pressures.

- The long-term viability of the healthcare market has led to outcomes overtaking a cost only perspective.

- The customer demands and needs are changing; it’s not just about physicians and patients. The needs of payers and pharmacists should also be addressed.

- The fear of change is great across the industry; no company wants to be perceived as the first mover and be at a market disadvantage.

- Oliver Wyman’s view is that change is no longer a choice but a necessity. By any measure the existing model is seriously flawed and needs a new direction. It is time to let go of a 20th century sales model in a 21st century healthcare market.
The healthcare industry as a whole has changed and evolved constantly over the last five decades. From comprehensive care to the emergence of HMOs to consumer directed plans and integrated health management, key players have redefined themselves to address a changing market environment. However, one segment of the healthcare market known for innovation of products has not been innovative with the business practices employed to reach the market.

Over the past 40 years, the pharmaceutical operating model has remained largely unchanged. For generations, pharmaceutical companies have embraced a traditional go-to-market approach of detailing doctors, tantamount to door-to-door sales. And while the world has changed a great deal—the invention of computers, the availability of overnight delivery, and landing a man on the moon—the model has remained the same. It is a situation that would make even Willy Loman proud.

In addition to the antiquated approach to direct selling, there is a confluence of factors indicating that the current promotion model is not sustainable nor will it be viable in the healthcare market of tomorrow. The market is calling for a model that does a better job of reaching all of its constituencies with information and expertise that is valuable. In addition to the influence of physicians, patients are directing their care more while patients and payers both have a heightened focused on the relationship between cost and value. Meanwhile pharmacists have been filling a care management void for years but have been ignored by the industry.

So a new model must emerge—one that is focused on outcomes. To be successful it must provide major benefits to the pharmaceutical companies that must implement it. We believe that those benefits comes in the form of an expanded market and the ability to finance it with an orderly dismantling of what is not working today.
The Case for Change

Healthcare costs continue to rise. The number of uninsured and the aging populations are stressing the healthcare system to its limit. In the United States in particular, growth in healthcare premiums has outpaced every other key economic indicator. It is also estimated that the cost of treating the uninsured could be approximately $125 billion in the next two years.

In response, payers are increasingly focused on reducing costs and improving quality, especially for drugs. Tiered formularies that encourage patients to use generics or “preferred” drugs have become a common component of major health plans. These issues have a direct bearing on physician prescribing behaviors and patients’ willingness to start and continue drug treatments.

Since prescription drugs are the fastest growing segment of total healthcare costs, they are increasingly the focus of health insurers and government agencies. Payers are pushing pharmaceutical companies to justify the cost of new drugs and efficacy alone is no longer sufficient grounds for approvals. For example, the U.S. Senate Finance Committee is considering creating a body to assess pharmaceuticals based on quality of life years (QALY) and cost/benefit ratios.

Despite these pressures, the market for prescription drugs has opportunities to grow. The largest users of prescription drugs—people over the age of 55—will expand dramatically over the next ten years in the U.S. and consequently so will total drug volume. The issue is...
whether this growth will be profitable, calling on the industry’s ability to deliver value and manage its costs.

Marketing and sales budgets are on average the second-largest investment made by drug companies. In fact for most of the top companies, selling, general and administrative expenses rank above R&D as the single largest expense. But the marketplace has changed dramatically; the era of the blockbuster drug is over and the pipeline of drugs is not as robust as it once was.

The industry has been highly dependent on revenues from blockbuster drugs, which have always been the focus of most sales and marketing efforts. Add the demise of the blockbuster to the weakening of most companies’ pipelines and the outlook begins to become fairly bleak (Exhibit 1). Most organizations will not be able to replace revenues lost from expiring patents.

The pressure for change is not only economic but also political and perceptual (Exhibit 2). Regulatory bodies as well as professional associations are pressuring pharmaceutical companies to curb

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**Exhibit 2** Professional organizations and regulatory bodies have heightened their control over pharmaceutical sales and marketing

- The AMA proposes to eliminate commercial funding for CMEs
- Several states (e.g. MA, MN, VT) completely ban or limit gift giving
  - Many individual hospitals and private practices in other states follow suit
- Pending regulation to allow the FDA to revise any TV ad before broadcast
  - Bolstered by recent scandals e.g. Vioxx, Lipitor
- PhRMA revises “Code on Interactions with Healthcare Professionals” to limit gift giving and conference opportunities
- Government passes bill to support academic detailing
- Congress passes law allowing e-prescribing; consumer protection to be ensured by banning drug advertising on these websites
- OIG guidelines require less commercial and marketing influence in CMEs
- AMA establishes voluntary guidelines limiting the value and types of gifts acceptable that sales reps can provide
- FDA prohibits DTC advertising unless all materials meet federal guidelines
- Physicians urge the AMA to limit drug marketing in hospitals, clinics
- FDA puts ban on DTC advertising for drugs that have been out for less than 2 years

Source: Oliver Wyman analysis.
gifts, continuing medical education credits and samples. The American Medical Association has established guidelines related to the value and types of acceptable gifts that sales representatives can offer physicians. The Food and Drug Administration is developing guidelines to restrict advertising on certain drugs and on drugs that have been in the market for less than two years. Most recently the Pharmaceutical Research and Manufacturers of America is revising the “Code on Interactions with Healthcare Professionals.”

Even as the oversight and regulations related to sales and marketing have heightened, few reductions in salesforces have been made until recently. For ten years the growth of sales representatives has outpaced the growth of physicians. Despite any culling, the reputation of sales representatives is still weak. Physicians are skeptical of the pitches and increasingly unwilling to see sales representatives or spend any significant time with them (Exhibit 3).

Exhibit 3  Growth in salesforces has not led to improved perceptions or effectiveness among physicians

For ten years, the growth of sales reps has outpaced the growth of physicians…
Number of U.S. sales representatives and physicians1

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S. sales representatives</th>
<th>Physicians</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>100,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>2005</td>
<td>120,000</td>
<td>1,040,000</td>
</tr>
</tbody>
</table>

CAGR
- Sales representatives: 10.2%
- Physicians: 4.1%

…however, physicians are skeptical of sales rep pitches
Physician view on information from sales representatives2

- Somewhat balanced: 59%
- Not very balanced: 27%
- Very unbalanced: 8%

…and few physicians are willing to see sales representatives3

- For every 100 sales rep calls...
- ...83 make it to the reception desk...
- ...56 see the physician...
- ...and less than 24 have a 2-4 minute conversation

The New Model

A new model must be compelling to pharmaceutical companies by offering a clear opportunity to improve business performance. There also must be thought given to managing the risk and the inherent disruption of change. Oliver Wyman’s “prescription for change” seeks to balance these issues in a way that is implementable. Our new model is predicated on five concepts:

1) The pharmaceutical industry has neglected a significant portion of the market by essentially ignoring the opportunities inherent in improving disease diagnosis and patient adherence.

2) There needs to be greater balance in the allocation of resources to various segments of customers and influencers involved in the prescription, funding and consumption of pharmaceuticals.

3) Promotional programs and tactics need to be customized to the unique needs of the market segments and even allow for unconventional customers (i.e., caregivers).

4) While pharmaceutical companies are rich in commercial and scientific skills, organizational silos within the commercial functions inhibit their ability for leveraging these skills.

5) The value proposition of commercialization must shift from “price per pill” and “units sold” to “outcomes.”

The remainder of this paper will explain the rationale for the new go-to-market model and provide examples of how to realize each element illustrated in Exhibit 4. While pragmatism underlies our design, the application of this model in any environment will require a great deal of customization to ensure success and mitigate risk.

Exhibit 4  Building a better go-to-market model will ultimately lead to better patient outcomes

Source: Oliver Wyman analysis.
Over 85% of spending by pharmaceutical companies is on the initial prescriptions (those patients who are being given a drug for the first time) as indicated in Exhibit 5, leaving only 15% for other market demand drivers, such as diagnosis and prescription refills.

The current go-to-market model focuses almost exclusively on initial prescription writing, largely ignoring other drivers of market demand. To grow in the new healthcare environment, as product differentiation becomes harder to sustain, pharmaceutical companies need to go beyond promoting for first prescriptions (and banking on maximizing price in payer negotiations) toward expanding the total size of the market, and the resulting revenue potential.

Oliver Wyman research has shown that reallocating resources to diagnosis, adherence and compliance will drive growth. Investing in diagnostic programs can yield significant revenue gains. Initiatives that improve disease awareness, enhance patient education and inform physician diagnostic protocols further enable pharmaceutical companies to drive more patients to seek medications, thus expanding the market opportunity.

In addition, by developing integrated compliance programs that are coordinated with payers and pharmacists, pharmaceutical companies have the ability to help patients adhere to treatment plans and dramatically improve health outcomes. By reaching consumers on a variety of levels—medical, intellectual, emotional and aspirational—programs can be much more effective over the long term (Exhibit 6). Most compliance programs are simplistic and short-sighted, seen as poor investments if they fail to deliver results in six to twelve months. Moreover, they are typically targeted at one aspect of compliance (forgetfulness, cost or education) but do not provide a holistic integrated approach for long term impact.
The customer definition has changed from just physicians to a combination of physicians, payers, pharmacists, and patients, all having an influence on how drugs are being used and reimbursed (Exhibit 7). In particular, payers are scrutinizing their formularies and benefit designs for ways to control costs stemming from ineffective drug utilization. Tailored account plans with solutions for company-specific drug spend issues allow pharmaceutical companies to address payer needs.

Physicians also have unique unmet needs but pharmaceutical companies must first overcome physicians’ perception of sales representatives as biased (some might go as far as not trustworthy) with limited pertinent information.

By providing physicians with more clinical and quality of life information—essential elements of the physician decision making process—pharmaceutical companies can rebuild the sales and marketing relationship. At the same time they are addressing the information needs of physicians that have arisen as the market shifts from mass-marketed products (primary care) to targeted specialty products. These improvements are beginning to occur with the use of specialty care salesforces.

While physicians historically have been top-of-mind constituents, pharmacists must not be overlooked. For pharmacists, influencing patients through their role as educators complements a physician’s diagnosis and treatment. What pharmacists need are tools to educate patients while incentives can promote product loyalty.

Exhibit 7  There is significant potential for the industry to understand and meet the needs of physicians, patients, payers and pharmacists

<table>
<thead>
<tr>
<th>The Four P’s</th>
<th>What physicians really want¹</th>
</tr>
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<tbody>
<tr>
<td><strong>Physicians</strong></td>
<td></td>
</tr>
<tr>
<td>• Redesign the sales model to meet physician needs by sharing more valuable information for new products</td>
<td>Clinical knowledge and experience 92%</td>
</tr>
<tr>
<td>• Focus on the areas that matter the most in terms of physician decision making</td>
<td>Peer-reviewed journals 53%</td>
</tr>
<tr>
<td>– Accurate, less biased information</td>
<td>Clinical practice guidelines 43%</td>
</tr>
<tr>
<td>– Demonstrated results backed by data</td>
<td>Patient’s coverage and formularies 35%</td>
</tr>
<tr>
<td><strong>Patients</strong></td>
<td></td>
</tr>
<tr>
<td>• Help reduce the cost to patients who truly can’t afford drugs, including those with insurance</td>
<td>Patient’s personal opinions 17%</td>
</tr>
<tr>
<td>• Ensure that drugs get on formulary, otherwise patients are not likely to be able to afford them</td>
<td>Info from pharmaceutical company reps 11%</td>
</tr>
<tr>
<td><strong>Payers</strong></td>
<td></td>
</tr>
<tr>
<td>• Make formulary placement a priority, and give payers the information they need to approve drugs</td>
<td>Info from insurance company’s and PBM reps 6%</td>
</tr>
<tr>
<td>– Understand that payers are looking for lower cost outcomes and demonstrate that drugs can provide them</td>
<td></td>
</tr>
<tr>
<td>– Take the time to produce long-term results payers will value</td>
<td></td>
</tr>
<tr>
<td><strong>Pharmacists</strong></td>
<td></td>
</tr>
<tr>
<td>• Leverage pharmacists’ influence over decision making</td>
<td></td>
</tr>
<tr>
<td>– Provide them with additional support for patient education</td>
<td></td>
</tr>
<tr>
<td>– Educate the pharmacists themselves as they are now a driver of decision making</td>
<td></td>
</tr>
</tbody>
</table>

¹ KRC Research, Survey on Pharmaceutical Information, commissioned by PhRMA, March 2008, from “Pharmaceutical Marketing and Prescribing”.

Source: Oliver Wyman analysis, KRC.
The promotional mix for a pharmaceutical product is largely driven today by whether a product is used for primary care or specialty care. This approach has served the market well as long as the focus has been on prescription writing. As attention shifts to a broader set of market opportunities, this model breaks down because it is too standardized.

Market need and promotional requirements are primarily a function of product purpose: life-saving, life-extending, life-enhancing or life-style (Exhibit 8). This new way of thinking helps transfer some of the investment away from initial prescribing of drugs towards continuing treatment for consumers. Rather than a blanket shift for all types of medicine, this change will be based on the purpose of a drug.

Moving across the spectrum from drugs vital to sustaining life to drugs that improve life, more of an emphasis will be placed on the consumer rather than on the physician. With life-saving drugs, the decision is clear—it’s based on clinical information and protocols, primarily driven by a physician’s decision to save a life. On the other end of the spectrum, life-style is more aligned with a consumer product decision, and is primarily determined by the patient with some input by the physician.

This change enables pharmaceutical companies to shift their marketing budgets according to which types of drugs they produce. If the products are in the life-saving category, resources should be directed to the physician, as this is the group that has the most influence within that category. Likewise, if a company produces drugs in the life-style category, such as cosmetic medicine, the patient will be the one who makes a majority of the drug decisions, justifying an appropriate spend on direct-to-consumer advertising.

Exhibit 8  Customers think about products according to their purpose, and pharmaceutical companies should do the same

<table>
<thead>
<tr>
<th>Life-saving</th>
<th>Life-extending</th>
<th>Life-enhancing</th>
<th>Life-style</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life-saving drugs are used to <strong>save lives</strong> and <strong>cure diseases</strong>.</td>
<td>Life-extending drugs are used to extend the lives of patients suffering from <strong>chronic conditions</strong>.</td>
<td>Life-enhancing drugs <strong>relieve the symptoms</strong> of serious, but not <strong>life threatening</strong> conditions.</td>
<td>Life-style drugs <strong>improve lives</strong> by meeting health wants and needs that are <strong>not medically necessary</strong>.</td>
</tr>
<tr>
<td>Patients only receive these drugs in <strong>hospitals</strong> and in <strong>emergency situations</strong>.</td>
<td>Patients take these drugs nearly <strong>every day</strong> and are often on them for the <strong>rest of their lives</strong>.</td>
<td>Patients take these drugs <strong>regularly</strong> and may <strong>suffer previous symptoms</strong> if they forget to take them.</td>
<td>Patients <strong>choose to take these drugs</strong> and are rarely on them for the <strong>rest of their lives</strong>.</td>
</tr>
</tbody>
</table>

**Customer influence over demand**

**Demand drivers**

- Prescriptions
- Diagnosis
- Fill
- Refills
- Diagnosis
- Refill

Source: Oliver Wyman analysis.
Adherence Programs

Adherence programs have been in the market for years. Why then do these programs not work as often? There are several reasons. First, many factors influence adherence, ranging from training and cost to convenience and side effects, as illustrated in Exhibit 9. Pharmaceutical companies have the ability to influence 85% of these factors. Unfortunately, many of the programs today focus on one element and not the several that are required to significantly move a market. Second, there is a “staying power” factor. A quick payback is at odds with the reality that programs often require time to work, yet are shut down six months to a year after initiation. Finally, the programs need to be reinvigorated. While the core messages must be consistent, creativity is essential in the delivery.

Every product in the market has some form of adherence issue and, in combination with under-diagnosis, there is a great deal of opportunity left on the table. As Exhibit 10 indicates for depression, there is approximately a 75% revenue opportunity loss. This example is typical. While it is unrealistic to assume one can capture it all, the pharmaceutical industry could be doing much more to optimize revenue performance.

Exhibit 9  Barriers to adherence

Pharmaceutical companies can influence more than 85% of the barriers to adherence

Exhibit 10  Revenue opportunity loss

Oliver Wyman case study of the depression market (2008)

Unserved market due to lack of diagnosis or poor adherence

Sources: (1) “Barriers to Hypertension Control”, Ann M. Borzechki et al, American Heart Journal, 149: May 2005; US census, NHLBI, MTF, and JABFM estimates; (2) “Pharmacy Compliance and Refill Reminders”, Pharmacy Satisfaction Digest, 2007; (3) “Changes in Antihypertensive”, Dusing et al, Blood Pressure 7(6), 1998; (4) estimates from AHA, MTF, JABFM, and academic journals.

(18) difficulty of impact
(13) possible impact
(27) easy impact

The pharmaceutical industry loses a significant portion of revenue by ignoring diagnosis and refills

Sources: Oliver Wyman analysis based on statistics from the US Census, NMHA, NHPF, and AJPH; estimates were taken from academic studies, www.dbsalliance.org, and www.nyt.com.
Implications

Pharmaceutical companies have been reluctant to make these changes out of fear that by being the “first mover” they will be at a competitive disadvantage. However, the new economic climate presents a prime opportunity to make these shifts. The historical reluctance has arisen from the generally conservative nature of the industry and the extended product development lifecycle. Most decisions that pharmaceutical companies make today will not see the light of day for at least a decade.

But this reluctance and conservatism needs to be overcome. Pharmaceutical companies should first aim to cut their overall marketing and sales budget by at least 25% in order to right-size to the current marketplace and reduce the emphasis on the traditional physician-first prescription focus. This includes not only reduced visits by representatives to physicians but also a reduction in marketing those drugs that have an established track record. These changes could be accomplished in as short a timeframe as nine months allowing for an early return of savings to the company before it proceeds to revamp the sales system.

In addition, there are creative programs that can be developed to augment the reduction in direct sales and traditional marketing. Johnson & Johnsons risk sharing agreement for Velcade is a prime example (Exhibit 11). These types of arrangements

Exhibit 11 Case study: Johnson & Johnson (J&J)
Risk Sharing: Velcade—The first major drug with a “money-back guarantee”

<table>
<thead>
<tr>
<th>Situation</th>
<th>Deal structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>• National Institute on Clinical Excellence (NICE) originally declined to recommend Velcade given cost and other available options</td>
<td>J&amp;J will repay the cost of Velcade for patients who do not show sufficient improvement</td>
</tr>
<tr>
<td>• Future projections for Velcade suggested an important growth opportunity for the company</td>
<td>NHS buys Velcade at full price for patients after first or second relapse¹</td>
</tr>
<tr>
<td>• The response rate for Velcade is stable/predictable and success could be measured to allow for adequate financial modeling of arrangement</td>
<td>Patient receives drug for up to 4 cycles</td>
</tr>
<tr>
<td>• J&amp;J proposed the Velcade risk sharing deal in order to gain entrance into the UK market</td>
<td>Blood test for serum M protein levels (a specific biomarker of tumor load)</td>
</tr>
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<tr>
<th>Partial or full response²</th>
<th>Minor or no response</th>
</tr>
</thead>
<tbody>
<tr>
<td>NHS continues to fund treatment</td>
<td>Full refund of drug costs by J&amp;J³</td>
</tr>
</tbody>
</table>

Without the risk-sharing agreement, Velcade would have been unable to enter the U.K. market

¹ In Scotland, the Scottish Medicines Consortium only approved Velcade for patients who have had at least two rounds of previous treatment.
² A partial response is defined as at least 50% reduction in serum M protein. A minor response, originally suggested by Janssen-Cilag as the cut-off, is a 25% reduction.
³ Rebate is in the form of replacement stock or credit unless cash is requested.

Source: Oliver Wyman analysis, Scottish Medicines Consortium, NICE, Summary of Velcade response scheme.
have allowed companies to enter new markets and garner critical efficacy information. Other innovative programs include supporting enrollment in Medicare for elderly patients and promoting 'No Pay Co-Pay' programs for people dependent on life-saving medicines. The pharmaceutical industry can build on these efforts, finding additional ways to get patients involved in their medical treatment plans.

Instead of offering rebates or discounts to promote a drug to a health insurance company or government program, pharmaceutical companies can use those same dollars to offer disease management programs or offset co-pays for patients, both of which enable first prescriptions and compliance. For example, Pfizer traded guaranteed savings for preferential treatment in Florida's Medicaid formulary (without price cuts)—confident in the effectiveness of a multi-pronged disease management program that included IT, care managers and nurse centers (Exhibit 12).

Regardless of the approach that companies adopt in the near future, the evidence clearly points to the need for a drastic overhaul of the current pharmaceutical sales system. Rising prices and distrust of many sales representatives have left all parties involved skeptical of each other, leading to a downturn of the industry, despite incredible advancements in healthcare. It is only a matter of time before the 20th century sales pitch catches up with the 21st century medical innovations.

Exhibit 12  Case study: Pfizer
Trading guaranteed savings for preferential treatment in formularies without price cuts

Why did Pfizer propose a disease management program in Florida?

- In 2001 Medicaid budget deficits drove Florida to adopt a Medicaid formulary designed to cut prices
  - To make the preferred list, drugs were generally rebated to an equivalent of a 6% price cut in addition to federal Medicaid's 15-20% cut
  - Regulatory hurdles discouraged doctors from prescribing off-formulary drugs
- Florida agreed to put all Pfizer drugs on the state formulary without price rebates if Pfizer implemented a patient program

Deal structure
Pfizer's disease management program would help save Florida Medicaid $33 million over two years

In exchange for formulary access, Pfizer guarantees $33 million in savings to Florida Medicaid over two years

Pfizer creates Pfizer Health Solutions to achieve savings through several means

Software and database upgrades
- Tracks patient interactions
- Lowers administrative costs and mistakes

Personal "care managers"
- Monitor patient health and compliance
- Educating patients on health and providers

24/7 nurse centers
- Provides patients with low cost access to advice and care
- Referral to doctor or emergency room

Net healthcare savings for Florida Medicaid of $41.9 million

If Pfizer did not save over $33 million, it would have reimbursed Florida

Pfizer took a gamble on guaranteed savings in order to avoid giving states authority over pricing; Bristol-Myers Squibb followed soon thereafter.

3 "State Medicaid Disease Management: Lessons Learned from Florida" (Duke University, 2005).
Role of Networked Organization

Oliver Wyman’s new model addresses the need to flexibly respond to the unique requirements of markets and disease areas. In concept, an organizational mindset and structure should enable an organization’s goals, not be an obstacle. Unfortunately, we see many companies engrained in a silo-dominated, hierarchical structure that inhibits the group’s ability to fluidly move expertise and capabilities around the organization as they are needed. This issue becomes significant when one takes the new model past the concept stage to think about application and implementation. Exhibit 13 defines what the attributes are of a networked organization in the context of sales and marketing, highlighting the key requirements of leadership, organizational structure, resource allocation, and decision making.

Exhibit 13  Characteristics of a networked organization in pharmaceutical sales and marketing

<table>
<thead>
<tr>
<th>Leaders are responsible for bringing resources together to accomplish business goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Focused on customers and achieving total market potential</td>
</tr>
<tr>
<td>• Frequent sharing of insights across products with similar customer needs</td>
</tr>
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<table>
<thead>
<tr>
<th>Resources are fluid and dynamic to ensure the most effective allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Resource allocation changes by stage of product lifecycle, competitive landscape, evolution of customer need</td>
</tr>
<tr>
<td>• Brand managers or “market owners” bring on resources for defined periods of time</td>
</tr>
<tr>
<td>• Resources expect and are capable of moving from product to product</td>
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</table>

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<thead>
<tr>
<th>Centrally managed capabilities are effectively leveraged throughout the company</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Specialist expertise is shared across the organization, while solutions are customized—expertise is not reinvented in every new situation</td>
</tr>
<tr>
<td>• Consistent measurements for success. For example—improvements in adherence, reaching the untreated are easy to measure and standards should be set to justify investment</td>
</tr>
</tbody>
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<tr>
<th>Decisions are driven by value</th>
</tr>
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<tbody>
<tr>
<td>• Spend is not driven by large brands or entrenched teams but by ability to capture value in the market</td>
</tr>
<tr>
<td>• Lifecycle stage and competitive opportunity may be the better drivers of how to allocate marketing resources</td>
</tr>
<tr>
<td>• Flexibility of resources allows for more fluid reallocation of resources</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman analysis.
Thoughts on Implementation

As stated at the outset, a new model must have a clear path to value and mitigate the risks of driving change, suggesting a phased implementation that simultaneously allows for an orderly dismantling of the old model.

Dismantling the current model in a way that mitigates risk requires an initial focus on practices that contribute to the high cost of sales and marketing:

1) Percentage of details that are not focused on communicating new information

2) Details of products that are mature in their lifecycle where benefit is marginal

3) Sampling and promotional aids that support 1 and 2

4) Gifts, conferences, and continuing medical education that should be eliminated as the industry adheres to new standards for marketing practices

These four issues impact at least 25% of the total sales and marketing budget and do not add incremental value.

Exhibit 14  Right size and realign

Cut
- Cut salesforce and other areas with low impact on revenues but high spend
  - Includes CMEs, conferences, promotional materials, journal ads, etc.
- Initially make cuts based on excess volume and frequency
- Eventually, cut strategically based on product lifecycle and product purpose

Reallocate
- Develop a strategy to pilot revised operating model, e.g., product purpose, demand drivers, customer categories
- Build out capabilities in the broader organization
- Execute the pilot, monitor results, and fine-tune the model
- Roll out to broader organization

Results
- Higher quality interactions with customers
- Strategic partnerships with customers resulting in more approvals, lower costs, and better outcomes
- Flexible structure that is able to quickly adapt to new market conditions
- Increased sales growth and market potential from better diagnosis and adherence
- Significant advancement to improving patient outcomes and reducing total cost of care

Initial savings of 25-50%
Ability to grow market opportunity, not just market share
Better patient outcomes, increased revenues, and lower operating costs

Source: Oliver Wyman analysis.
The savings from these cuts then allow for the investment in the capability development and design of a pilot program to apply the new model. That pilot may be geographically based; it may be based on both geography and products. Whatever the choice, all of these applications will require a design step that customizes the concepts to the organization.

With the success of these pilots, the organization becomes positioned to further dismantle the current model and over a longer period of time (2+ years) is transformed. Exhibits 14 and 15 show the steps at a high level and what a migration plan can look like.

Exhibit 15  With strong leadership, a pharmaceutical company can develop a new Go-to-Market model within two years.

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assessment</strong></td>
<td><strong>Fund the change</strong></td>
<td><strong>Rollout part B</strong></td>
</tr>
<tr>
<td>• Understand spend by</td>
<td>• Eliminate low value spending</td>
<td>• Advance the build</td>
</tr>
<tr>
<td>– Area (promotion, sales, etc.)</td>
<td>• Aim for 25% initial reduction based upon:</td>
<td>• Expand to other product areas</td>
</tr>
<tr>
<td>– Customer category</td>
<td>– Lifecycle screen</td>
<td>• Measure, monitor and learn</td>
</tr>
<tr>
<td>– Lifecycle stage</td>
<td>– Review of detail frequency</td>
<td>• Gap in current offering vs. customer category needs</td>
</tr>
<tr>
<td>– Product purpose</td>
<td>– Prevalence of low impact meetings, CMEs and conferences</td>
<td></td>
</tr>
<tr>
<td>• Gap in current offering vs. customer category needs</td>
<td></td>
<td>• Untapped revenue potential</td>
</tr>
<tr>
<td>• Untapped revenue potential</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Define strategic priorities</strong></td>
<td><strong>Start to change</strong></td>
<td><strong>Rollout part A</strong></td>
</tr>
<tr>
<td>• Capabilities</td>
<td>• Charter the new groups</td>
<td>• Accelerate process to tear down old model</td>
</tr>
<tr>
<td>• Future direction</td>
<td>– Hire, train, and build</td>
<td>• Make further reductions in detailing</td>
</tr>
<tr>
<td>• Major gaps</td>
<td>• Pilot and test new model</td>
<td>• Refocus sales efforts broadly with smaller, more specialized teams</td>
</tr>
<tr>
<td>• Build consensus for new strategy</td>
<td>• Develop new metrics</td>
<td></td>
</tr>
<tr>
<td><strong>Deliverables:</strong> Defined future vision and road map</td>
<td><strong>At least 25% savings</strong></td>
<td>Working pilot to test ideas</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman analysis.
Locked in the concepts of a new model is the need to accomplish two very important goals:

- Pragmatically approaching implementation by an orderly attack on the waste in the existing model

- Understanding how networked resources and flexible capabilities meet the specific needs of a multitude of geographies and markets they serve

The changes suggested by this model are transforming, yet implementation must be staged in a manner where risks to current operations are mitigated. Oliver Wyman firmly believes that the industry is now ready for the transformation and that the market clearly has been ready for these changes for a long time. 

Summary

An industry known for innovation in science now has to innovate in the world of sales and marketing. The writing is now clearly on the wall for the pharmaceutical industry to change the way it views its market and the tactics employed to reach that market. Pursuing a market approach that addresses untreated populations and adherence will open up opportunity for pharmaceutical companies as well as result in better outcomes for patients. Attention paid to other segments of customers with growing influence will result in better allocated resources and better relationships with payers and patients.
About the Authors, all of whom are members of the Health and Life Sciences practice at Oliver Wyman:

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About Oliver Wyman

With more than 2,900 professionals in over 40 cities around the globe, Oliver Wyman is an international management consulting firm that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. The firm helps clients optimize their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is part of Marsh & McLennan Companies [NYSE: MMC].

Oliver Wyman’s Health & Life Science's practice serves clients in the pharmaceutical, biotechnology, medical devices, and payer sectors with strategic, operational, and organizational advice. Deep healthcare knowledge and capabilities allow the practice to deliver fact-based solutions.

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