

DOES MASS MARKETING HAVE A FUTURE?

Independent consultant Nick Hutton says R&D departments must provide products for representatives to sell

Mass marketing, for the purposes of this article, is where an organisation develops a brand image for its product that it promotes globally, and where a large sales force is employed to promote the product across a broad range of customers.

This established approach to selling pharmaceutical products has worked successfully for the past 30 years. However, there is a growing force for change. The fact that there is a need for change can be drawn into sharp relief when companies review where they are deriving their major sales growth. The United States market accounts for approximately 45 per cent of revenue for global pharmaceutical companies, and is where greater than double digit sales and profit growth is predominantly derived. However, in Europe the market is not so buoyant; many ethical companies are struggling to drive sales growth organically and tend to be consolidating through acquisitions.

There are two basic factors that are driving this change. These factors seem to be noticed and reported by industry observers and investors, but unnoticed within the industry itself.

The economic logic of "big pharma" is a well-run path. The premise has been to drive economies of scale in large research and development departments, to generate new medicines that can then be passed on to the large scale sales and marketing teams. Size means greater resource, which of course means greater penetration in the markets through higher share of voice, ie, the more noise you make in the market the more likely you are to be heard.

However a few realities are beginning to come to light.

RESEARCH AND DEVELOPMENT

The first is that the economies of scale are not materialising in research and development. More money is being spent with little evidence of an increase in tangible saleable products. All that is happening is that there is a higher attrition rate from the large number of potential targets. Many potential therapeutic targets are being developed in an ever more crowded research field, but the number of truly innovative new medicines appearing on the market is few.

The promised panacea that was the growth in intellectual capital in genetics and genomics has not yet delivered products of mass market appeal. Valuable research is being undertaken that frequently hits the news headlines, but this is not generating new "blockbusters". More complex selective targets are generating more complex selective products, and these are being developed faster and more efficiently through technological advances and improvements. However these products do not lend themselves to a traditional mass marketing approach,

but to focused, specialist fields. It is therefore not surprising that investors are becoming more sceptical of the constant promise of jam tomorrow. It looks like the more specialist niche players are a more attractive proposition currently, and they have drawn an upgraded attention from investors and acquisitive larger players.

A HOSTILE ENVIRONMENT

The second reality is more worrying still. Europe is becoming an ever more hostile environment in which to sell pharmaceutical medicines. Regulators are becoming increasingly sophisticated and stringent, and customers are becoming increasingly reluctant to open their doors to fleets of medical representatives. The return on investment in sales forces is ever diminishing as companies have to provide more technical and economic data to support their propositions, and fewer representatives are being seen by customers.

The traditional "share of voice" approach to bill-boarding marketing messages to customers, where the one that can shout the loudest is most likely to be heard, is beginning to fall on deaf, or rather closed, ears. The number of medical representatives has increased significantly over the years but the number of doctors has stayed the same, if not declined. This is coupled with clinicians having less and less time to see representatives with the development and introduction of more numerous means of sourcing "impartial" information on products. The ability of the large promotional power houses to be effective is hampered further by the market access regulators, who are making it harder not only for companies to get their products into the European markets, but also approved on to tiers of drug formularies.

The US market still dominates world pharmaceutical sales, and therefore drives the style and approach of the global players. There is also another important factor that differentiates the US from European markets, which is that it is possible to link a representative's performance directly to specific sales from a specific customer. Therefore the belief that activity drives sales can be readily correlated. Share of voice, market noise, and therefore the number of customers your sales force make contact with, are key drivers of performance. Europe, though, is more reliant on the third party anonymous sales data provided by IMS, where the tangible correlation between activity and sales is more opaque. It is therefore easier to fool oneself that increased activity drives sales at a micro level, where plainly this is not happening at a macro level in some European markets.

It is not surprising that US-centred thinking dominates the management cultures within "big pharma". A sales force management structure and culture in Florida will be

the same as that in France and that in the United Kingdom, and even in an area within one of the countries. Experimentation is not encouraged because it hinders the traditional need to compare input performance measures. Instead of driving sales and acting as a motive for change, this drives conformity and unscrupulous activity recording.

The force for change is therefore still not strong from within. The significant gross margin, ie, gross profit, on new products, acts as a further disincentive. Why drive sales growth when profits are still high? However, as investors see profit eroded through diminishing operating margins, due to erosion on return of investment in the sales force coupled with sales growth targets not being hit, some of the larger investors may start to ask more prying questions.

THE CHALLENGE

Is the challenge to innovate, and become more creative, with sales force excellence programmes? Maybe not. An alternative may be to put greater emphasis behind the cornerstone of the business, ie, the ability to sell. Many representatives are now more motivated and measured on how many calls they make, rather than how much they have sold.

What drives most sales forces nowadays are ever more sophisticated activity monitoring systems and balanced scorecards. The representatives who can do seven to eight calls a day are highly valued, and this activity performance is regularly touted by the sales force contract houses. The challenge is to prove that these levels of activity drive sales performance. One simple test that can quickly uncover whether detailing messages seven times a day drives sales, or whether the activity card is just driving an activity recording exercise, is to ask the representatives how many prescriptions they think they have generated on each specific call.

Of course this is subjective, but my experience has demonstrated to me that it encourages the representatives to think about whether they have made a sale, rather than whether they have delivered their prepared story to an unhearing customer.

In an environment of slowly diminishing returns, the established representative that has rapport-developing skills, as well as the dying ability to sell products rather than recite a story, becomes an ever more valuable commodity. The real test is whether this becomes a widely more valued commodity in an industry that has become obsessed with chasing activity reports. Sales managers need to know whether their representatives are selling rather than reciting a story. Even more fundamentally, R&D and marketing departments need to give their representatives something to sell.