

THE FUTURE OF COMMERCIAL MODELS IN PHARMA:

Best Practices & Common Pitfalls

Faced with a myriad of changes in the global marketplace, pharmaceutical companies know they need a New Commercial Model (NCM). At a live webinar on April 20, 2010, Chris Nickum and Sydney Clark of IMS Health joined with *Pharmaceutical Executive* to discuss recommendations for the conceptualization, definition and development of new commercial models. IMS put forth a five-step process to help companies determine the best route to a New Commercial Model. Within each step, IMS also outlined best practices and common pitfalls to consider, and illustrated key trends through real examples currently taking place within pharmaceutical and biotech companies.

The Need for a New Commercial Model

By 2015, 75 to 80% of the pharmaceutical market will be commoditized in the eight countries where pharmaceutical companies are most heavily invested. According to a 2009 IMS study, these investments included a misalignment of commercial spending totaling a staggering \$15B. In the future, increasingly more stringent regulations and a shift in stakeholder influence at the local level will contribute to further misalignments if commercial models are not revised.

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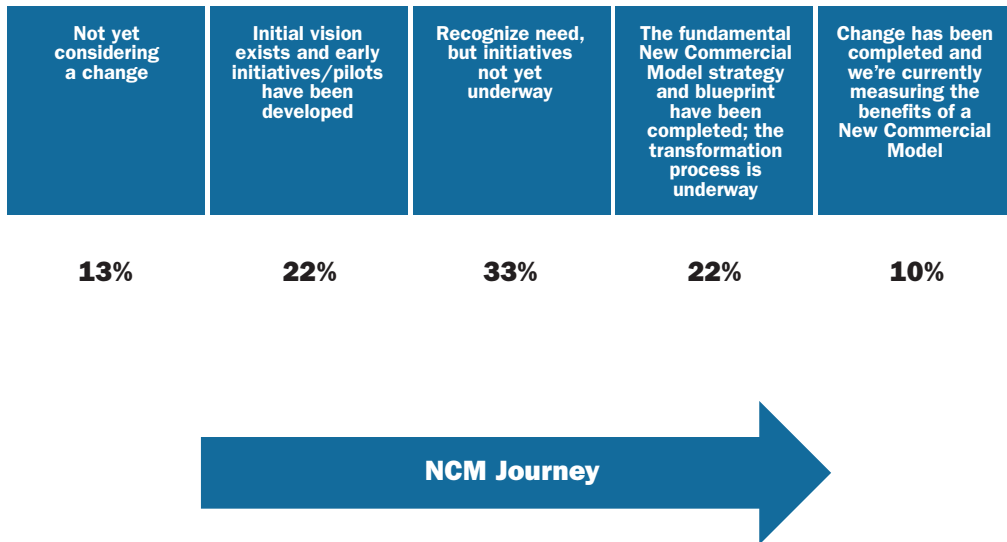
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FIG. 1

Where Webinar Participants Are on the New Commercial Model Journey



“ While change is indeed on the books for most organizations, it can be difficult to know where to start. ”

Although organizations recognized that the patent cliff was coming 5 years ago and knew they should be preparing, there was no obvious common approach to new commercial models. Today, the key industry pressures are well understood, and many clients have the development and implementation of a new commercial model on their agenda. In figure 1, 33% of webcast participants indicated they recognized the need for change, but they have not yet begun the evolution to a new commercial model. Although down from 25% last year, another 13% are not yet considering a change. The greatest challenges to making the change, according to webcast participants, are maintaining business as usual (36%) and managing the implementation and the change (37%) within the organization.

While change is indeed on the books for most organizations, it can be difficult to know where to start.

IMS created the following steps to use as a guide for new commercial model development:

1 Assess the current and future landscape: Establish a common point of view on how the healthcare environment will change over the short- and long-term, and the implications on your organization’s capabilities, portfolio and franchise.

2 Develop a strategic plan: Set the direction of the organization based on the future landscape, including capability, portfolio and organizational requirements.

3 Assess and develop new capability requirements: Assess your current capabilities and identify the gaps your

organization has in all areas, such as marketing, technical, motivational, knowledge management, reporting, selling and analytical capabilities that may preclude you from getting to your future state.

4 Define and develop the ‘right-fit’ organization:

Assess your options and decide on the organizational structure that best addresses key stakeholder needs, while keeping in mind the impact on your brands and franchises.

5 Execute, implement and track performance: Roll out your new commercial model using best practice approaches, including defining and prioritizing local needs, managing change behaviors and monitoring performance on an ongoing basis.

How to Avoid Pitfalls and Exercise Best Practices of a New Commercial Model

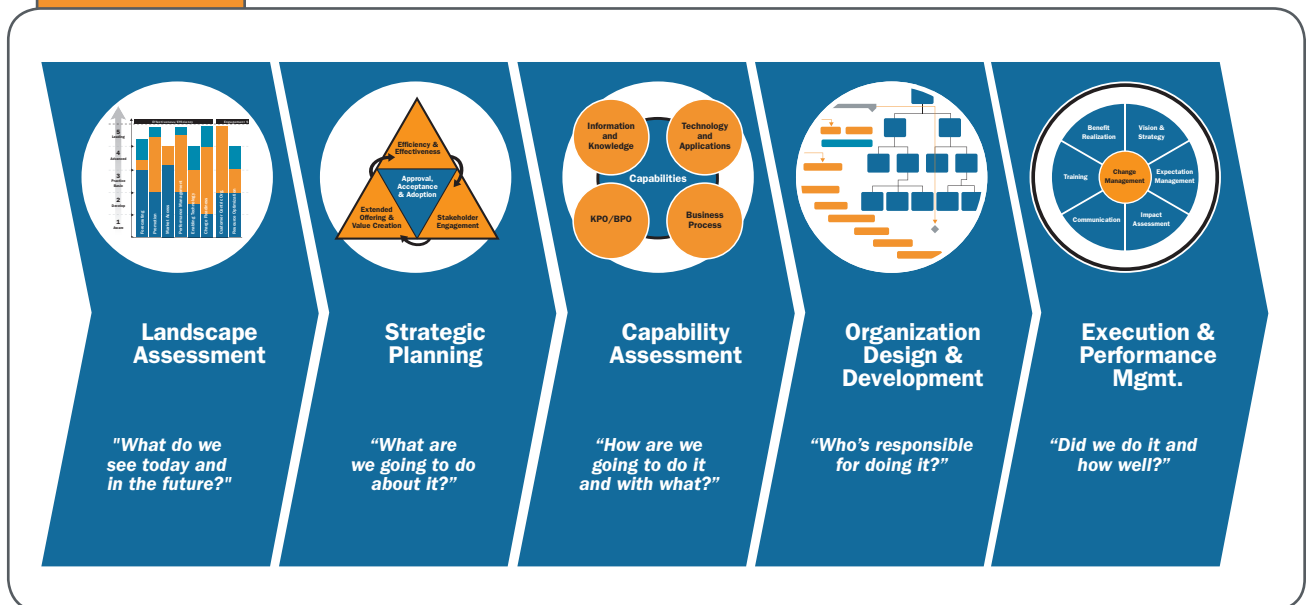
Unfortunately, even the best-laid plans for a new commercial model have pitfalls. In each successive stage of the new commercial model—from landscape assessment to performance management—there are many obstacles. But these roadblocks can be mitigated by planning carefully and adopting best practices.

Landscape Assessment

Pitfalls: IMS has found that one of the most common pitfalls is to pay lip service to the global landscape assessment.

FIG. 2

How IMS Views the New Commercial Models Journey



In the name of confidentiality, companies do not include all stakeholders and often under-resource or underfund this effort. As a result, it's possible the company will get the facts about the environment in which it is competing wrong or incomplete.

Best Practice: Involve the local market participants in the process. Establish a cross-functional group to look at the business, including sales, marketing and sales operations. Align with the annual planning process and ensure that the cross-functional group has access to the information and insights needed to make evidence-based decisions, and not those based on assumptions.

Case Study: A top 10 pharmaceutical firm wasn't getting local buy-in during its assessment stage. IMS was brought in to challenge internal thinking, find a new way to look at the business, understand—in greater detail—the stakeholders' perspective and leverage market intelligence to evaluate winning strategies. The strategy was then aligned with the needs and objectives of the stakeholder and accepted by the local regions.

Strategic Planning

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Pitfalls: During the strategic planning stage, many companies

improperly assume what the market will look like in the future and its impact on stakeholders. Indeed, organizations often overestimate their current capabilities and don't establish the best "residence" for them (e.g., inside the organization versus partnering; in the local market versus at headquarters). They also miscalculate the effectiveness of their promotional efforts.

Best Practice: Establish multiple workgroups that have cross-organizational stakeholders and task them to think as a network rather than as individuals. Have these workgroups create future scenarios and strategic responses to them. Make sure to refresh scenario management over time. "Strategic planning is not a once-and-done process," says Chris Nickum, vice president and global practice leader, Commercial Effectiveness, IMS Health.

Case study: A top 5 global pharmaceutical company had determined through their landscape assessment that it needed to understand Integrated Delivery Networks (IDNs) as key stakeholders in order to devise a new commercial strategy. The company leveraged secondary data to size up and segment the U.S. IDN market, using criteria such as sales volume, span of control and level of prescribing

influence, to tease out 4 to 5 actionable IDN segments. This segmentation allowed the company to appropriately size and deploy a key account manager sales force focused on the high-priority segments. “A one-size-fits-all approach to IDNs does not work – one would not expect a high-control, high-volume, broad coverage IDN to be addressed the same way as a loosely managed, niche player,” says Sydney Clark, vice president and Americas practice leader, Commercial Effectiveness, IMS Health.

Companies that are ahead of the curve are going a step further. Many of these companies are segmenting within the IDN, identifying the key customer types per market and what each customer type expects from pharma. These organizations also are measuring how well they perform versus these expectations, and are implementing improvements around capabilities, processes and services to fill in those gaps and gain a competitive advantage.

Capability Assessment

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Pitfalls: During the capability assessment stage, companies should do a gap analysis that reflects what is needed to achieve their future vision. “In this step, we see a lot of turf wars,” says Nickum. “Functional areas fight over who’s going to

get the funding and where the process is going to be owned. Often, companies have a great strategy but lack commitment to that strategy. They fall back on current organizational structures and investments to create the design. All too often, existing projects dictate the wrong outcomes.”

Best Practice: Move toward a service bureau model to support change and add flexibility. Outsourcing activities such as reporting and analytics enables companies to focus on their core strengths and highlight their competitive advantages. Changes should be incrementally considered to move the new commercial model along at a manageable pace. Companies should always keep in mind that these approaches must not jeopardize either internal or external customer satisfaction.

Case Study I: A top 10 U.S. pharmaceutical company had implemented parts of its new commercial model, but needed to create new Key Performance Indicators (KPIs) for their salesforce. “This organization took a best-in-class approach. They asked themselves, ‘If I were starting a new business with a blank sheet of paper, what kind of performance metrics would I devise,’” says Clark. They brought together a cross-functional team from headquarters and the field and

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arrived at 180 KPIs, which they prioritized and mapped to the organization. As a result, their KPIs could tell a story and were user-friendly to the stakeholders involved. “The information was never more than two clicks away,” says Clark.

Case Study II: Another company was trying to determine the effectiveness of its traditional salesforce in influencing prescriber behavior. It was losing market share to a generic in what was becoming an increasingly commoditized market. Through qualitative and quantitative analyses, the company teased out which rep capabilities and attitudes drove market share. The organization defined four key drivers that were highly valued by physicians and therefore predicted the success of the relationship.

Then, in cross-functional workshops with sales and marketing, the company arrived at actionable tactics such as sales rep re-training and promotional programs to fill the acknowledged gaps between the company’s sales reps and their customers. The company also developed tailored messages and services for other touch points, such as nurses and administrators, realizing that promotions should be right-fitted to the individual audience. Through this new model, the company enhanced its relationships

and boosted market share. “Through this initiative, the ‘abstract’ relationship concept was transformed into something that was both actionable and measurable,” says Clark.

Organizational Design and Development

Pitfalls: Current organizational realities often prevent optimal design. In deploying a new commercial model, companies must assess their options and decide on the most suitable organizational structure, keeping in mind the impact on existing operations. Many companies address structural and non-structural elements disproportionately and improperly manage the responsibilities of the local organization versus the headquarters. In addition, while resource re-skilling may be necessary, companies often misjudge the time and commitment required.

Best Practice: Clearly define new roles and responsibilities, as well as interdependencies. Implement a phased deployment with ample time devoted to training new skills. Salespeople, for example, will need to be trained with different selling strategies, especially in areas where the brand is becoming commoditized.

Case Study: A company wanted to deploy a new IDN strategy

but didn't have the necessary people and processes in place. The organization had previously implemented a Key Account Management (KAM) structure with limited success due to incorrect resource allocation and lack of client intimacy.

"When thinking about a KAM function, it is critical to consider how that role fits in with the bigger picture, internally and externally. KAMs must be generalists, experts at forging relationships, coordinating cross-functional teams, unearthing opportunities and most importantly, building and executing account plans. These are the capabilities companies should look for in a KAM—not success as a rep in a specific area within pharma," says Clark. "In addition, this company had to develop solution toolkits and put in place incentive structures to support the KAM function, which is key to organizational success."

Execution and Performance Management

Pitfalls: While the implementation of your new commercial model is the ultimate end state, tracking your progress is key to success, and it's one element many organizations overlook. In fact, many organizations miscalculate the scope of execution and its impact on the organization's infrastructure and people, as well as the company's ability to conduct "business as usual."

Other common pitfalls include deciding to do the execution internally as an addition to employees' "day jobs" or not doing thorough planning and development in the previous phases.

Best Practice: Communicate often, adjust as needed and monitor progress continuously. For example, require new, more flexible compensation and reporting systems which allow you to adjust to new market realities during execution. "If you're locked into a rigid compensation/reporting system, it's going to create problems," says Nickum. "KPIs should be both quantitatively and qualitatively aligned with your new commercial model, and you must have the ability to react to the market and competition as an organization."

Case Study: A company needed to establish a more complex organization with different types of sales forces, addressing emerging stakeholders. At the same time, the organization faced P&L pressures and had to service the salesforce at a lower cost. Executives realized their legacy compensation system did not support the new sales roles. They replaced their homegrown system with an enterprise-based software solution that enabled more flexible output, created consistency across the organization and established the baseline for

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performance management.

In fact, three of the largest pharmaceutical companies have chosen to replace their internally supported incentive compensation systems and move to a SaaS IC solution. Each of them had varying reasons, but the common denominator was that they were looking for an enterprise-wide, configurable, business rules-based application that would enable the management of multiple IC plan designs, as well as respond to changes in sales force structures and plan designs—all at a lower cost than their home-grown systems.

The Future

While it's difficult to definitively predict where the industry is headed with commercial models, there are some reasonable assumptions:

- The more conservative organizations will wait for the early adopters to advance, while others will wait for best practices to emerge and then adopt them
- Some organizations will decide to run two or more distinct models (e.g., specialty and commodity) in transition
- Europe will likely advance ahead of the other geographies
- Portfolio-related issues will hasten companies facing increased commoditization to move with more urgency

To be successful, make sure you ask the following questions of

your organization's effort to date:

1 What is our organization's current state?

- Is this a corporate-wide or niche effort?
- Do we have a common and agreed-to strategy/plan or is our organization fragmented?
- Are all key stakeholders in the organization involved in the process?

2 Is our organization planning end-to-end?

- Are we continuously ensuring phases are in lock-step?
- Have we considered downstream skills and other requirements to implement?

3 Is our organization continuously challenging the process?

- Has our organization collected any outside views of our work?
- Is our organization watching what our competitors are doing?

By fully understanding the answers to these questions, following the five steps outlined above and avoiding the common pitfalls along the way, you can help ensure your organization's new commercial model efforts will produce a go-to-market model that meets the needs of all stakeholders – internally and externally. Those organizations that make the change to a new commercial model earlier than others will undoubtedly benefit from competitive advantages in the marketplace.

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