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PHARMACEUTICAL MARKETING

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PART I: PHARMACEUTICAL MARKET

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UNIT I: HEALTH CARE ENVIRONMENT

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- know about the health care systems and health care reform.
- describe the health care requlation in India.
- explain the primary services in health care.
- discuss the need for international harmonisation.

1.1 INTRODUCTION

In any planning exercise, it is important to examine our "environment" and determine what factors may influence the choices we make around the directions we choose to follow. The health care environment is very broad and can be examined at all levels of government in a variety of areas. We looked at our environment from the perspective of Political (Public Policy), Social, Economic and Technological lenses.

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1.2 OVERVIEW OF HEALTH CARE SYSTEMS AND HEALTH CARE REFORM

At its broadest, Health System Strengthening (HSS) can be defined as any array of initiatives and strategies that improves one or more of the functions of the health system and that leads to better health through improvements in access, coverage, quality, or efficiency (Health Systems Action Network 2006).

Health systems can be understood in many ways. The World Health Organization (WHO) defines health systems as "all the organizations, institutions, and resources that are devoted to producing health actions." This definition includes the full range of players engaged in the provision and financing of health services including the public, nonprofit, and for-profit private sectors, as well as international and bilateral donors, foundations, and voluntary organizations involved in funding or implementing health activities. Health systems encompass all levels: central, regional, district, community, and household. Health sector projects engage with all levels and elements of the health system and frequently encounter constraints that limit their effectiveness.

The World Health Report 2000 (WHO 2000) identifies the four key functions of the health system: (1) stewardship (often referred to as governance or oversight), (2) financing, (3) human and physical resources, and (4) organization and management of service delivery. Figure 1.1 illustrates the relationship between the four functions of health systems.

1.3 HEALTH CARE REGULATION, POLICY AND ADVOCACY

The stewardship, or governance, function reflects the fact that people entrust both their lives and their resources to the health system. The government in particular is called upon to play the role of a steward, because it spends revenues that people pay through taxes and social insurance, and because government makes many of the regulations that govern the operation of health services in other private and voluntary transactions (WHO 2000).

The government exercises its stewardship function by developing, implementing, and enforcing policies that affect the other health system functions. WHO has recommended that one of the primary roles of a Ministry of Health is to develop health sector policy, with the aims of improving health system performance and promoting the health of the people (WHO 2000). Governments have a variety of so-called policy levers they exercise to affect health programs and health outcomes (Table 1.1).

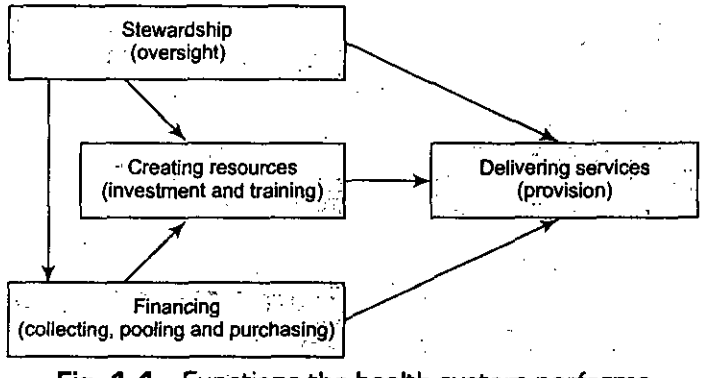

Fig. 1.1 Functions the health system performs

An example of strong government stewardship in health can be found in Uganda, where the government's proactive approach to preventing HIV/AIDS is likely to have reduced the incidence of the disease. The government provided an enabling environment by encouraging community-based initiatives and supporting mass communication campaigns, which promoted prevention and behaviour change.

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Furthermore, stewardship in health encompasses (1) activities that go beyond the health system to influence the main determinants of health (*e.g.*, education, poverty, environment), and (2) other issues that are external to the health system, but which either foster or constrain its effectiveness. For example, a government may decide to tax imported medicines to increase general tax revenues or to protect local producers, but in doing so, will increase prices to consumers and impair access to these medicines. Stewardship in this area seeks to influence the broader environment in which the health system operates. Emerging research evidence demonstrates that health is a key component to good development policy (Saunders 2004). The presence of poor health conditions in a country slows economic growth directly as societies lose potential workers and consumers to disease and disability.

Attention to reducing child mortality and morbidity results in healthier children who can attend school and eventually contribute to economic growth when they become wage-earners. When child survival is the norm, parents tend to have fewer children and are able to invest more in their children's education and health.

Priorities in health policy also need to be elaborated at the national and local levels through health goals that address improving the health of the poor and reducing the gap between the poor and non-poor for an impact on child survival (Gwatkin 2000). Although the establishment of policy lays an essential foundation for a government's intention, its value depends on the evidence and effects of policy implementation.

As such, health system assessment should take account of the degree of government decentralization and the levels and authorities that are the key decision makers in health. Which levels have authority over planning, budgeting, human resources, and capital investment? Is the health sector represented at the district council level? Does the district have a role in policy development, resource allocation, and human resource planning? These dimensions underscore the need to approach health system performance and strengthening by understanding the interaction and linkages that exist between health financing, service delivery and management of human resources in the health sector.

Table 1.1 Government Policy and Health Programs

Governmental Policy Levers	Relevance to Health Programs
Size of the total government health budget	Sets the overall limit on what a government can spend
Financing mechanisms for funding the health care system (e.g., donor support, taxes, user fees, social insurance contributions)	Determine what flexibility the government has for financing health care and identify potential financial barriers that may exist for accessing care (*e.g.*, fees, their levels, and exemptions)
Allocation of the government health budget	Reflects how the government uses its tax resources to, for example, deliver services, employ staff, subsidize providers, regulate in sector, provide information, and configure the sector in terms of preventive vs. curative services, personnel vs. supplies, investment in human resources (training) vs. physical resources (hospital)

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	Affects which programs are prioritized and what populations will benefit (rich vs, poor, urban vs. rural.
Regulation of civil society organizations	Can facilitate or constrain the functioning of private voluntary organizations (PVOs), nongovernmental organizations (NGOs), and community organizations with regard to service delivery and the capacity such groups have to influence and advocate for health services
Political support to raise awareness for specific health messages and behaviours (*e.g.*, clear government support for specific health messages such as prevent-ion of HIV contraceptive use, or TB treatment)	Can be powerful for stigmatized or polemic health initiatives and promoting high impact health interventions (e.g., hand washing)
Adoption of specific health standards or guidelines	Can improve the quality of care, expand or constrain the number of providers, and facilitate implementation of approaches such as Integrated Management of Childhood Illness (MCI).
Regulation of pharmaceuticals	Can improve medicine quality assurance and rational use of medicines Can influence the ability to bring medicines and supplies into the country
Business regulations and taxation	Can influence the degree to which the private sector participates in health care—for example, import taxes can affect pharmaceutical sales; business regulations can hamper private providers from setting up practices; limitations on advertising can limit promotion of branded health products.

Performance Criteria

Understanding the health policies of the national government, and its international commitments, allows for informed development of advocacy for improved health care *access*, *equity*, and *quality*. In addition, national policies affect the system's ability to deliver *efficiency*, thereby affecting the overall *sustainability* of the system and its ability to function into the foreseeable future from a financial and organizational perspective.

Sustainability

A stronger health system is fundamental to sustaining health outcomes achieved by the health system. Sustainability typically cannot be guaranteed through changes at the local level only. For example, health providers can be trained at the local level, but if these providers cannot be retained or supervised or if medicines and supplies are not available, then health gains will be limited.

Sustainability of health programs can be addressed on several levels: institutional, program, community, and health outcomes. Below in Table 1.2 are some examples of how each level of sustainability defined for child survival can be linked to the broader health system to contribute to sustainability.

Table 1.2 Linking Priority Health Services Sustainability in the Health System

Level of Sustainability	Health System
Institutional	Ensures legal framework is in place to facilities establishment and sustainability of private organizations Develops sustainable management and financing systems within organizations
Programmatic	Seeks consistency between priority health services and broader health information systems (HIS), quality standards, and other elements Shares programmatic successes with health officials and policymakers for broader application in the health systems
Community	Broadens community involvement to include advocacy for policies that support sustainability of priority health services
Health outcome	Ensures: • Strong government stewardship • Pro-low-income health policies • Political leadership to promote community and household actions that, in turn, promote priority health services • Adequate health financing for services and resources • A provider payment system that rewards delivery of primary care • Effective licensing of professional providers • A functioning pharmaceutical and commodity supply system • A functioning HIS that tracks priority health services indicators

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1.4 HEALTH CARE REGULATION IN INDIA

Health care in India features a universal health care system run by the constituent states and territories of India. The Constitution charges every state with "raising of the level of nutrition and the standard of living of its people and the improvement of public health as among its primary duties". The National Health Policy was endorsed by the Parliament of India in 1983 and updated in 2002.[1] However, the government sector is understaffed and underfinanced; poor services at state-run hospitals force many people to visit private medical practitioners.

Government hospitals, some of which are among the best hospitals in India, provide treatment at taxpayer expense. Most essential drugs are offered free of charge in these hospitals. Government hospitals provide treatment either free or at minimal charges. For example, an outpatient card at AIIMS (one of the best hospitals in India) costs a one time fee of rupees 10 (around 20 cents US) and thereafter outpatient medical advice is free. In-hospital treatment costs depend on financial condition of the patient and facilities utilized by him but are usually much less than the private sector. For instance, a patient is waived treatment costs if he is below poverty line. Another patient may seek for an air-conditioned room if he is willing to pay extra for it. The charges for basic in-hospital treatment and investigations are much less compared to the private sector. The cost for these subsidies comes from annual allocations from the central and state governments.

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Primary health care is provided by city and district hospitals and rural Primary Health Centres (PHCs). These hospitals provide treatment free of cost. Primary care is focused on immunization, prevention of malnutrition, pregnancy, child birth, postnatal care, and treatment of common illnesses. Patients who receive specialized care or have complicated illnesses are referred to secondary (often located in district and taluk headquarters) and tertiary care hospitals (located in district and state headquarters or those that are teaching hospitals).

In recent times, India has eradicated mass famines, however the country still suffers from high levels of malnutrition and disease especially in rural areas. Water supply and sanitation in India is also a major issue in the country and many Indians in rural areas lack access to proper sanitation facilities and safe drinking water. However, at the same time, India's health care system also includes entities that meet or exceed international quality standards. The medical tourism business in India has been growing in recent years and as such India is a popular destination for medical tourists who receive effective medical treatment at lower costs than in developed countries.

Health Care Infrastructure

The Indian health care industry is seen to be growing at a rapid pace and is expected to become a US$280 billion industry by 2020. The Indian health care market was estimated at US$35 billion in 2007 and is expected to reach over US$70 billion by 2012 and US$145 billion by 2017. According to the Investment Commission of India the health care sector has experienced phenomenal growth of 12 percent per annum in the last 4 years. Rising income levels and a growing elderly population are all factors that are driving this growth. In addition, changing demographics, disease profiles and the shift from chronic to lifestyle diseases in the country has led to increased spending on health care delivery.

Even so, the vast majority of the country suffers from a poor standard of health care infrastructure which has not kept up with the growing economy. Despite having centers of excellence in health care delivery, these facilities are limited and are inadequate in meeting the current health care demands. Nearly one million Indians die every year due to inadequate health care facilities and 700 million people have no access to specialist care and 80% of specialists live in urban areas.

In order to meet manpower shortages and reach world standards India would require investments of up to $20 billion over the next 5 years. Forty percent of the primary health centers in India are understaffed. According to WHO statistics there are over 250 medical colleges in the modern system of medicine and over 400 in the Indian system of medicine and homeopathy (ISM&H). India produces over 250,000 doctors annually in the modern system of medicine and a similar number of ISM&H practitioners, nurses and para professionals. Better policy regulations and the establishment of public private partnerships are possible solutions to the problem of manpower shortage.

India faces a huge need gap in terms of availability of number of hospital beds per 1000 population. With a world average of 3.96 hospital beds per 1000 population India stands just a little over 0.7 hospital beds per 1000 population. Moreover, India faces a shortage of doctors, nurses and paramedics that are needed to propel the growing health care industry. India is now looking at establishing Academic Medical Centers (AMCs) for the delivery of higher quality care with leading

examples of The Manipal Group & All India Institute of Medical Sciences (AIIMS) already in place.

As incomes rise and the number of available financing options in terms of health insurance policies increase, consumers become more and more engaged in making informed decisions about their health and are well aware of the costs associated with those decisions. In order to remain competitive, health care providers are now not only looking at improving operational efficiency but are also looking at ways of enhancing patient experience overall.

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India has approximately 600,000 allopathic doctors registered to practice medicine. This number however, is higher than the actual number practicing because it includes doctors who have emigrated to other countries as well as doctors who have died. India licenses 18,000 new doctors a year.

Central Government's Role

Critics say that the national policy lacks specific measures to achieve broad stated goals. Particular problems include the failure to integrate health services with wider economic and social development, the lack of nutritional support and sanitation, and the poor participatory involvement at the local level.

Central government efforts at influencing public health have focused on the five-year plans, on coordinated planning with the states, and on sponsoring major health programs. Government expenditures are jointly shared by the central and state governments. Goals and strategies are set through central-state government consultations of the Central Council of Health and Family Welfare. Central government efforts are administered by the Ministry of Health and Family Welfare, which provides both administrative and technical services and manages medical education. States provide public services and health education.

The 1983 National Health Policy is committed to providing health services to all by 2000. In 1983 health care expenditures varied greatly among the states and union territories, from ₹ 13 per capita in Bihar to ₹ 60 per capita in Himachal Pradesh, and Indian per capita expenditure was low when compared with other Asian countries outside of South Asia. Although government health care spending progressively grew throughout the 1980s, such spending as a percentage of the Gross National Product (GNP) remained fairly constant. In the meantime, health care spending as a share of total government spending decreased. During the same period, private-sector spending on health care was about 1.5 times as much as government spending.

Expenditure

In the mid-1990s, health spending amounted to 6% of GDP, one of the highest levels among developing nations. The established per capita spending is around ₹ 320 per year with the major input from private households (75%). State governments contribute 15.2%, the central government 5.2%, third-party insurance and employers 3.3%, and municipal government and foreign donors about 1.3, according to a 1995 World Bank study. Of these proportions, 58.7% goes toward primary health care (curative, preventive, and promotive) and 38.8% is spent on secondary and tertiary inpatient care. The rest goes for nonservice costs.

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The fifth and sixth five-year plans (FY 1974–78 and FY 1980–84, respectively) included programs to assist delivery of preventive medicine and improve the health status of the rural population. Supplemental nutrition programs and increasing the supply of safe drinking water were high priorities. The sixth plan aimed at training more community health workers and increasing efforts to control communicable diseases. There were also efforts to improve regional imbalances in the distribution of health care resources.

The Seventh Five-Year Plan (FY 1985–89) budgeted Rs 33.9 billion for health, an amount roughly double the outlay of the sixth plan. Health spending as a portion of total plan outlays, however, had declined over the years since the first plan in 1951, from a high of 3.3% of the total plan spending in FY 1951–55 to 1.9% of the total for the seventh plan. Mid-way through the Eighth Five-Year Plan (FY 1992–96), however, health and family welfare was budgeted at ₹ 20 billion, or 4.3% of the total plan spending for FY 1994, with an additional Rs 3.6 billion in the nonplan budget.

Primary Services

Health care facilities and personnel increased substantially between the early 1950s and early 1980s, but because of fast population growth, the number of licensed medical practitioners per 10,000 individuals had fallen by the late 1980s to three per 10,000 from the 1981 level of four per 10,000. In 1991 there were approximately ten hospital beds per 10,000 individuals. For comparison, in China there are 1.4 doctors per 1000 people.

Primary health centers are the cornerstone of the rural health care system. By 1991, India had about 22,400 primary health centers, 11,200 hospitals, and 27,400 clinics. These facilities are part of a tiered health care system that funnels more difficult cases into urban hospitals while attempting to provide routine medical care to the vast majority in the countryside. Primary health centers and subcenters rely on trained paramedics to meet most of their needs. The main problems affecting the success of primary health centers are the predominance of clinical and curative concerns over the intended emphasis on preventive work and the reluctance of staff to work in rural areas. In addition, the integration of health services with family planning programs often causes the local population to perceive the primary health centers as hostile to their traditional preference for large families. Therefore, primary health centers often play an adversarial role in local efforts to implement national health policies.

According to data provided in 1989 by the Ministry of Health and Family Welfare, the total number of civilian hospitals for all states and union territories combined was 10,157. In 1991 there was a total of 811,000 hospital and health care facilities beds. The geographical distribution of hospitals varied according to local socio-economic conditions. In India's most populous state, Uttar Pradesh, with a 1991 population of more than 139 million, there were 735 hospitals as of 1990. In Kerala, with a 1991 population of 29 million occupying an area only one-seventh the size of Uttar Pradesh, there were 2,053 hospitals.

Although central government has set a goal of health care for all by 2000, hospitals are distributed unevenly. Private studies of India's total number of hospitals in the early 1990s were more conservative than official Indian data, estimating that in 1992 there were 7,300 hospitals. Of this total, nearly 4,000 were owned and

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managed by central, state, or local governments. Another 2,000, owned and managed by charitable trusts, received partial support from the government, and the remaining 1,300 hospitals, many of which were relatively small facilities, were owned and managed by the private sector. The use of state-of-the-art medical equipment was primarily limited to urban centers in the early 1990s. A network of regional cancer diagnostic and treatment facilities was being established in the early 1990s in major hospitals that were part of government medical colleges. By 1992 twenty-two such centers were in operation. Most of the 1,300 private hospitals lacked sophisticated medical facilities, although in 1992 approximately 12% possessed state-of-the-art equipment for diagnosis and treatment of all major diseases, including cancer. The fast pace of development of the private medical sector and the burgeoning middle class in the 1990s have led to the emergence of the new concept in India of establishing hospitals and health care facilities on a for-profit basis.

By the late 1980s, there were approximately 128 medical colleges - roughly three times more than in 1950. These medical colleges in 1987 accepted a combined annual class of 14,166 students. Data for 1987 show that there were 320,000 registered medical practitioners and 219,300 registered nurses. Various studies have shown that in both urban and rural areas people preferred to pay and seek the more sophisticated services provided by private physicians rather than use free treatment at public health centers.

Traditional Practices

Indigenous or traditional medical practitioners continue to practice throughout the country. The two main forms of traditional medicine practised are the ayurvedic system, which deals with mental and spiritual as well as physical well-being, and the unani (or Galenic) herbal medical practice. A vaidya is a practitioner of the ayurvedic tradition, and a hakim is a practitioner of the unani or Greek tradition. These professions are frequently hereditary. A variety of institutions offer training in indigenous medical practice. Only in the late 1970s did official health policy refer to any form of integration between European-trained medical personnel and indigenous medical practitioners. In the early 1990s, there were ninety-eight ayurvedic colleges and seventeen unani colleges operating in both the governmental and non-governmental sectors.

Health Insurance

The majority of the Indian population is unable to access high quality health care provided by private players as a result of high costs. Many are now looking towards insurance companies for providing alternative financing options so that they too may seek better quality health care. The opportunity remains huge for insurance providers entering into the Indian health care market since 75% of expenditure on health care in India is still being met by 'out-of-pocket' consumers. Even though only 10% of the Indian population today has health insurance coverage, this industry is expected to face tremendous growth over the next few years as a result of several private players that have entered into the market. Health insurance coverage among urban, middle- and upper-class Indians, however, is significantly higher and stands at approximately 50% .

The Insurance Regulatory and Development Authority (IRDA) is the governing body responsible for promoting insurance business and introducing insurance

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regulations in India. The share of public sector companies in health insurance premiums was 76% and that of private sector companies was 24% for the period 2005–06. Health insurance premiums collected over 2005-06 registered a growth of 35% over the previous year. In 2001 the IRDA introduced provisions for Third Party Administrators (TPAs) to support the administration and management of health insurance products offered by insurance companies. TPAs are facilitators in the coordination process between the health insurance provider and the hospital. Currently there are 27 TPAs registered under the IRDA .

Health insurance has a way of increasing accessibility to quality health care delivery especially for private health care providers for whom high cost remains a barrier. In order to encourage foreign health insurers to enter the Indian market the government has recently proposed to raise the foreign direct investment (FDI) limit in insurance from 26% to 49%. Increasing health insurance penetration and ensuring affordable premium rates are necessary to drive the health insurance market in India.

1.5 INTERNATIONAL REGULATORY AGENCIES

1. United States. FDA Regulations
2. Canada. TPD Regulations
3. European Union: EMEA Regulations
4. Israel: Regulations of Ministry of Health
5. India: Ministry of Health
6. China: SFDA Regularions
7. South Africa Department of Health Regulations
8. Australia: TGA Regulations
9. New Zealand Joint Therapeutic Products Agency
10. Russia Ministry of Health
11. Japan: Ministry of Health and Welfare
12. Argentina: National Administration of Drugs, Food & Medical Technology
13. Australia: Australia's Department of Health and Aged Care, Industry Commission and Therapeutic Goods Administration
14. Austria: Health & Social Affairs
15. Belgium: Ministry of Social Affairs, Public Health & Environment
16. Brazil: Ministry of Health
17. Canada: Health Canada
18. Chile: Ministry of Health
19. Colombia: Ministry of Health
20. Costa Rica: Ministry of Health
21. Czech Republic: State Institute for Drug Control
22. Denmark: Danish Medicines Agency
23. Estonia: State Agency of Medicines, Estonia
24. Europe: EAEMP-The European Agency for the Evaluation of Medicinal Products
25. Finland: National Agency for Medicines (NAM)
26. France: Agence du Medicament
27. Germany: Federal Institute for Drugs and Medical Devices (FIDMD).

International

1. International Conference on Harmonisation (ICH)
2. World Health Organization (WHO).

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1.6 THE NEED FOR INTERNATIONAL HARMONISATION

Globalisation and expansion in international trade present a growing need to develop global quality standards for medicines. As standards are a vital instrument for registration, market surveillance, and free movement and trade of medicines among as many countries as possible, harmonisation among the world's three major pharmacopoeias, the European Pharmacopoeia (Ph. Eur.), the Japanese Pharmacopoeia (JP) and the United States Pharmacopoeia (USP), is an important and challenging task. Within the harmonisation process, the EDQM represents the European Pharmacopoeia. All the relevant groups of experts of the European Pharmacopoeia are involved.

1.7 INTERNATIONAL CONFERENCE ON HARMONISATION (ICH)

In 1990, a trilateral programme, the International Conference on Harmonisation (ICH), for the harmonisation of testing of medicines among the European Union, the United States and Japan was set up. This programme aims to reduce the overall cost of pharmaceutical research worldwide by avoiding duplication of work such as the preparation of dossiers and studies, thus reducing the time required for innovative medicines to become available. This conference takes places twice a year with the location of meetings rotating among Europe, Japan and the United States.

1.8 HARMONISATION ACTIVITIES

The ICH harmonisation activities fall into 4 categories see Table 1.3. The original Formal ICH Procedures involved a step-wise progression of guidelines. This process has evolved to include maintenance activities (Maintenance Procedure), as an essential part of the ICH procedure.

In addition to the maintenance activity, it is also important to have procedures in place to enable the modification of existing guidelines (Revision Procedure), as well as to assist in their implementation (Q&A Procedure).

Table 1.3

Category	Type of procedure	Technical Discussion Group	Explanation	Example
1.	Formal ICH procedure	EWG	Development of a new guideline	M5 (Data Elements and Standards for Drug Dictionaries
2.	Q&A procedure	IWG	Creation of Q&As to assist the implementation of existing guidelines	CTD-IWG

3.	Revision procedure	EWG	Revision/Modification of existing guidelines	E2B(R3)
4.	Maintenanc e rocedure	EWG	Adding Standard to existing guidelines and/or recommendations	Q3C(R3) M2 Recommendations

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SUMMARY

- The stewardship, or governance, function reflects the fact that people entrust both their lives and their resources to the health system.
- Understanding the health policies of the national government, and its international commitments, allows for informed development of advocacy for improved health care *access*, *equity*, and *quality*.
- A stronger health system is fundamental to sustaining health outcomes achieved by the health system.
- India has approximately 600,000 allopathic doctors registered to practice medicine.
- Primary health centers are the cornerstone of the rural health care system.
- Indigenous or traditional medical practitioners continue to practice throughout the country.
- The majority of the Indian population is unable to access high quality healthcare provided by private players as a result of high costs.
- The Insurance Regulatory and Development Authority (IRDA) is the governing body responsible for promoting insurance business and introducing insurance regulations in India.

REVIEW QUESTIONS

1. What do you understand by health care system?
2. Discuss different health care regulation.
3. Discuss health care regulation in India.
4. What are different international regulatory agencies?

FURTHER READINGS

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UNIT II: THE PHARMACEUTICAL INDUSTRY ENVIRONMENT

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- know about the pharmaceutical industry.
- describe the environmental forces in pharmaceutical industry.
- know what is the shakeholders?
- explain the needs of different shakeholder.

2.1 INTRODUCTION

In Canada, the research-based industry has invested more than 3.2 billion Canadian dollars in research and development since 1988. In 1995 alone,the industry invested 624 million Canadian dollars—an increase of 276 percent since 1987. Pharmaceutical Manufacturers Association of Canada (PMAC) 1998

The pharmaceutical industry is involved in discovering new or improved therapies that treat unmet medical and consumer needs. This industry is among the largest and most dynamic industrial sectors, accounting for approximately 300 billion U.S. dollars in yearly revenues. This unit focuses on the examination of the main characteristics, influencing factors, and future trends affecting the industry.

2.2 PHARMACEUTICAL INDUSTRY OVERVIEW

The number of global competitors in the industry is approximately two hundred multinational companies, with most of their headquarters based in the United

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States, Germany, Switzerland, United Kingdom, France, or Japan. The industry has enjoyed an annual growth of more than 10 percent in the 1990s, while several expert reports estimate the average profit margin of the top ten players at around 30 percent.

Within the industry, two major groups can be identified. Typical *pharmaceutical multinational giants* trace their roots to the beginning of the Twentieth Century gradually growing past their national borders and establishing subsidiaries around the globe (some with more than one hundred). They are responsible for introducing several innovative pharmaceutical products (new chemical entities or NCEs) to the world market, some of them becoming "blockbusters," that is, achieving more than 500 million U.S. dollars or, for others, one billion U.S. dollars in yearly global sales. These global integrated organizations belong to the elite of all business corporations, and some employ more than 100,000 employees worldwide (see Table 2.1).

On the other end of the industry spectrum, the group of *biotechnology companies* has risen to fame only during the last two decades, focusing on harnessing the recombinant DNA techniques and developing biotech drugs for treating serious diseases. These companies have based their ascendance on their human and technological resources, and some have surpassed the U.S. billion-dollar size without ever promoting or selling their products! Instead, they have allied with the typical pharmaceutical behemoths, which pay them large royalties for marketing their biotech products around the world. Furthermore, there is yet another group of biotech companies conducting original research for the last ten years, but not yet achieving profitability because they have not had any major research and development (R&D) breakthroughs and have depended on venture capital investments throughout their young life.

Table 2.1 Top 25 Pharmaceutical Companies Worldwide in 1998

Rank	Company	Pharmaceutical Prescription Sales (U.S. Million Dollars)	Percent Change VS. 1997
1.	Merck & Co	15,297	+ 12
2.	Aventis	13,650	NC
3.	Glaxo Wellcome	13,252	0
4.	AstraZeneca	12,754	NC
5.	Pfizer	11,788	+ 28
6.	Bristol-Myers Squibb	11,300	+ 15
7.	Novartis	10,001	+ 3
8.	Lilly	8,622	+ 17
9.	Johnson & Johnson	8,562	+ 11
10.	Roche	8,131	+ 24
11.	American Home Products	8,103	+ 2
12.	SmithKline Beecham	7,714	+ 5
13.	Abbott	7,123	+ 3
14.	Schering-Plough	6,695	+ 17
15.	Warner-Lambert	5,604	+ 55
16.	Sanofi-Synthelabo	4,830	NC
17.	Bayer	4,823	+ 1
18.	Pharmacia & Upjohn	4,756	+ 9

19.	Searle	2,894	+ 18
20.	Schering AG	2,655	+ 6
21.	BASF	2,563	+ 10
22.	Amgen	2,514	+ 13
23.	Novo Nordisk	2,016	+ 8
24.	Merck KgaA	1,668	– 2
25.	Akzo Nobel	1,447	+ 13

Indeed, there are very few "fully integrated" biotechnology companies that develop and market their products worldwide, thus bridging the gap between the giant pharmaceutical and minute biotechnology company extremes.

The concentration of global players within the industry has caused an intensely competitive market environment in most geographical or therapeutic market segments. Under these circumstances, some competitors continue to be successful across different therapeutic directions and are fortunate to have productive R&D departments that allow them to maintain a broadly focused market strategy. However, most multinational players have decided to focus their resources on specific areas of expertise, where their long-lasting history of innovation and commercial success allows them to be relatively protected from the competition of the giants. Such players are called "niche" players, which is a term borrowed from the biology microenvironment.

2.3 ASSOCIATED INDUSTRIES

There are a host of associated industries closely involved with the pharmaceutical industry (see Figure 2.1). The chemical industry is the main supplier of raw materials to the pharmaceutical industry, while the biotech industry has established strong contractual and mutually benefiting agreements. Generics and OTC manufacturers are often serious rivals of pharmaceutical manufacturers.

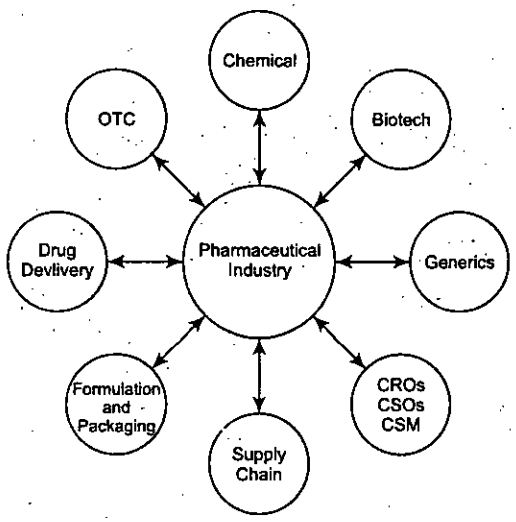

Fig. 2.1 Industries associated with the pharmaceutical industry

Supply chain intermediaries cover the vast distribution needs of the pharmaceutical industry. Drug delivery specialists help pharmaceutical industry's R&D departments

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achieve challenging routes of administration for their products. Formulation and packaging companies provide integration services to the industry. Finally, a series of subcontractors has seen their operations explode because the industry is frantically consolidating, downsizing, or outsourcing its noncritical or nonexpertise activities. Thus, contract research organizations (CROs) are overtaking important clinical trial activities, clinical site management (CSM) companies are overseeing the expeditious and efficient conduct of patient or investigator inclusion tasks, and contract sales organizations (CSOs) are lending their trained field sales forces to pharmaceutical companies with growing sales needs.

2.4 ENVIRONMENTAL FORCES

The pharmaceutical industry is in the midst of sweeping environmental changes imposed by the managed care reform and global government cost-containment initiatives, as well as a series of customer and industry dynamics. The industry's major growth driver has dramatically changed over the past two decades, going through an innovation phase (early 1980s), a price increase phase (late 1980s), a cost reduction and consolidation phase (early 1990s), and a recent resurgence of innovation (late 1990s). Some of the recent trends with the highest impact on the industry were the globalization and consolidation drives. The sweeping advances made possible through recent technological advances have startled even the toughest critic.

The increased industry rivalry within the traditionally largest markets (U.S., Europe, and Japan), as well as the severe competitive pressures coming from the generics manufacturers and the growth in suppliers' power, has forced the multinational pharmaceutical players to pursue an intensive globalization campaign, seeking to enter and conquer previously underdeveloped markets. This expansion has mainly capitalized on emerging market opportunities in Eastern European countries, the former Soviet Union, China, and Latin America. Despite its merits, however, globalization remains a challenging and potentially risky business tactic. Several experts have suggested the following requirements for an effective globalization: (*a*) local expertise, (*b*) sales capabilities, (*c*) customer service network, and (*d*) supply base.

A consolidation wave has also recently swept through the industry, exhibiting repeated industry mergers and acquisitions of previously fierce competitors. The scope of such consolidating activities includes economies of scale, critical mass, financial position, filling of technical gaps, sharing distribution networks, and therapeutic area synergy.

Some Major Industry Mergers and Acquisitions in the 1990s

American Home Products/Cyanamid

BASF/Boots

Cardinal Health/Bergen Brunswig

Ciba/Sandoz

Glaxo/Wellcome

Hoechst/Marion Merell Dow

Hoechst/Rhone Poulenc Rorer

Nycomed/Amersham.

Pharmacia/Upjohn

Rhone Poulenc/Fisons

Rhone-Poulenc/Rorer

Roche/Boehringer Mannheim

Roche/Syntex

Veba/Degussa

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Table 2.2 sheds some light on some of the most promising recent technology advances according to experts' predictions and expectations. The main advancement fields are biotechnology, other enabling technologies, disease diagnosis, product development, product delivery, and health care informatics.

Future Trends

The next few years will continue to be challenging and demanding for the worlds pharmaceutical industry. To prepare for the changes ahead, pharmaceutical marketers should proactively record and evaluate the possibility and impact of emerging trends so that proper measures and changes in corporate strategies can take place as early as necessary. Table 2.3 summarizes some of the industry's emerging trends, including external influences and customer and industry dynamics. Focuses on ways of analyzing the environmental situation and assessing the potential impact of the prevailing trends.

2.5 MAJOR STAKEHOLDERS

A pharmaceutical company's *stakeholder* is any person or group of persons with which the company has, or wants to develop, a relationship. These parties have an interest, or "stake," in the company's success. The thorough knowledge of their characteristics and needs is a must for all industry marketers, and careful attention should always be given to their analysis, crafting a relationship strategy, and evaluating their responses.

Stakeholders to the pharmaceutical industry belong to its internal and external environment. Thus, its internal stakeholders include every single company employee, either working relatively independently or as seen through the eye of a business unit, action committee, task force, functional team, or union. Obviously, the employee's education and training, as well as his or her motivation and sharing of the company's vision, are issues to be meticulously cared for by the organization's human resources department. Although employees' contributions have an enormous effect on the company's success, only a small portion of this book (Part 5, Communications' Strategy) is dedicated to their needs and wants. Including more information about internal stakeholders would be beyond the boundaries of this book. Instead, emphasis will be given to the external customers of the pharmaceutical organization who belong to a diverse mixture of interest groups. Kotler and Clarke (1987) categorize these external stakeholders into three main groups (see Figure 2.2). *Inputting stakeholders* include suppliers, regulators, and politicians, because they all play a significant influencing role in the company's success. *Mediators* include prescribers, university professors, and other health care professionals who stand between the company and its final customers, the patients.

Table 2.2 Technology Advances Affecting the Pharmaceutical Industry

Sector	Example	Description
Biotechnology	Gene therapy	The harnessing of recombinant DNA technology in identifying faulty gences and repairing them by administering a "fixed" fixed" copy
	Recombinant proteins	Using recombinant DNA techniques to make unlimited quantities of proteins lacking in a partient (e.g., insulin, growth hormone)
	Recombinant antibodies	"Custom-designing" recombinant antibodies that can search and destroy dangerous antigents (e.g., cancer cells, viruses).
Enabling technologies	Proteomics	The systematic characterization of protein profiles expressed in a give tissue, cell, or biological system (healthy or diseased)
	Rational drug design	Using computer-aided molecular modeling to design new entities that will bind a known receptor ligand like a "lock and a key"
	Combinatorial chemistry	Using automated sequencers to synthesize thousands of new molecular combinations and then screening then screening them in test systems
Disease diagnosis technologies	Small molecule chemistry	Using available technologies to synthesize small molecular entities, as opposed to large protein sequences
	Genomics	Characterization and sequencing of the genome, and analysis of the relationship between gene activity and cell function
	Functional genomics	Systematic analysis of gene activity in healthy and diseased tissues
	Pharmacogenomics	The study of how a patients response to a drug is affected by his/her genes; predicting a drug's good or bad responders
Product technologies	Natural candidates	Focusing on promising drugs that have been isolated from natural sources and improving their characteristics
	Carrier molecules	Laboratory coupling of active substance with a "carrying" attachment that can guide it in the body to the problem site
Drug delivery technologies	Space manufacturing	Avoiding the confines of earths gravity by achieving new physical forms in space laboratories (crystalls, liposomes, emulsions)
	Oral peptide delivery	Solving the problem of painful injections by creating peptides protected from the degrading enzymes of the enteric route
	Oral vaccines	Protecting the body from infections by administering a vaccine resistant to enzyme degradation

Table 2.2 Technology Advances Affecting the Pharmaceutical Industry

Health care informatics	Outcomes measurement	Collecting large amounts of patients' clinical outcome data and then making rational, outcome-based clinical decisions
	Knowledge sharing	Using information-management systems to collect, store, retrieve, and disseminate knowledge to all interested parties
	Bioinformatics	New science combining biology and computers enabling the Huma Genome Project (HGP) and other biological data to be used in drug discovery and clinical development
	Virtual trials	Testing new molecules' pharmacokinetic and pharmacodynamic effects on computer models, without ever injecting a human

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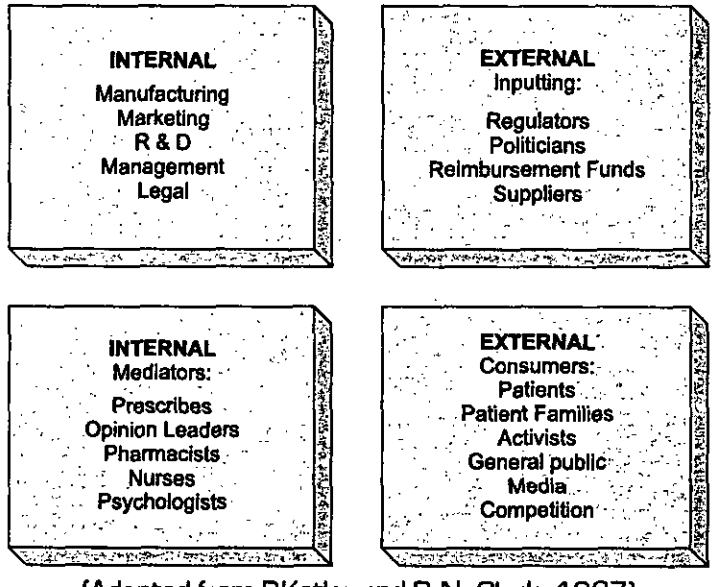
Table 2.3 Pharmaceutical Industry's Environmental Changes in the Third Millenium

External Influences	Customer Dynamics	Industry Dynamics
Demographic shift	Increased sophistication	Technology advances
Epidemiological changes	Increased copayment	Economic pressure
Changing geopolitics	More health conscious	Shortage of innovation
Emerging ethical issues	Consumerism	Diversification
Health care system changes	Social changes	Increased rivalry
Regulatory changes	Patient advocacy movement	Generic competition
State cost-containment	Negative perception of industry	Virtualization
		Consolidation
		Globalization
		Integration
		Pharmaeconomics
		Patent expiration
		Direct-to-consumer marketing

Consumers include not only patients and their families or advocacy groups, but the media, general public, and the competitors, too.

A detailed mapping of the major external industry stakeholders and their needs and relevant issues is presented in Table 2.4.

A commonly used analytic tool for identifying and characterizing stakeholder groups is the analysis grid shown in Figure 2.3. Groups are individually identified and characterized according to their type (influencing, supporting, conflicting, and so on), role, importance to the pharmaceutical industry, prevailing trends, and anticipated future importance.



(Adapted from P.Kotler and R.N. Clark, 1987)

Fig. 2.2 Different stakeholders within the pharmaceutical market environment

Table 2.4 Pharmaceutical Environment's Major Stakeholder Characteristics

Who Are They?					
Patients	**Prescribers**	**Hospitals**	**Influencers**	**Financers**	**Regulators**
Patient	Physicians	Hospitals (State, Private, Military)	Opinion Leaders (OLs)	Reimbursement funds	Ministry of Health
Patient advocates	Nonspecialists/Specialists	Clinics	Pharmacists	Insurance companies	Registration Authority
Patient families		HMOs	Wholesalers	Employers	Pricing Authority
		Ambulatory care	Nurses	MCOs	Patent Office
		Nursing homes			
			Social workers		Drug Organization
			Consultants		Ethics Committees
			Suppliers		Formulary Committees
		Needs			
Best possible health care	Pursue medical rationale	Increase clientele	OLs need professional	Protect patient benefit	Preserve public health
Lowest cost	Efficary	Increase market share	recognition and	Contain costs	Provide coverage
Information	Safety	Contain costs	advancement		Ensure efficacy and safety
Choice	Tolerability		Healthcare professionals		Ensure fair pricing
Privacy	Quality of life		need access to choice		
Humane treatment	Credibility		Pharmacists need information and		
Efficacy	Practice expansion		protection of profit margin		
Safety	Information				
		Issues			
Prescription vs. OTC choice	Up-to-date information	Discounts			
Compliance		Long payment terms			

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Pharmaceutical industry stakeholder analysis grid					
Type	Description	Role	Importance 1 = High, 5 = Low	Trend	Future Importance
Influencing	Opinion Leader		1		
Influencing	Prescriber		2		
Influencing	Authorities		3		
Supporting	Nurse		4		
Supporting	Pharmacist		4		

Fig. 2.3 Pharmaceutical industry stakeholder analysis grid

Prescribers

The primary providers of health care to the patients are actually the direct customers of pharmaceutical marketing. They pursue medical knowledge, maintain their patient base (if in private practice), and also follow some degree of cost-to-benefits logic (if working under a managed care environment). Pharmaceutical companies promoting different therapeutic categories come in contact with various physician categories and specializations. One of their important categorization criterion is professional rank or title—starting with the entry-level medical resident (or specializing physicians in some markets), and progressing to the academic ranks of fellow or lecturer, assistant professor, associate professor, and full professor. Should the physician be working for a state healthcare system, he or she climbs through the medical service ranks of consultant, registrar, senior registrar, and clinic director. Furthermore, medical specialties affect their work settings, the types of patients they come in contact with, and the medicinal therapeutic classes they utilize in their practice.

The professional ranking of physicians creates a hierarchical tree, which is observed and respected in all markets. Thus, younger and more junior physicians look up to their more experienced and senior colleagues for advice and guidance creating what has often been called a "pyramid of influence," as seen in Figure 2.4.

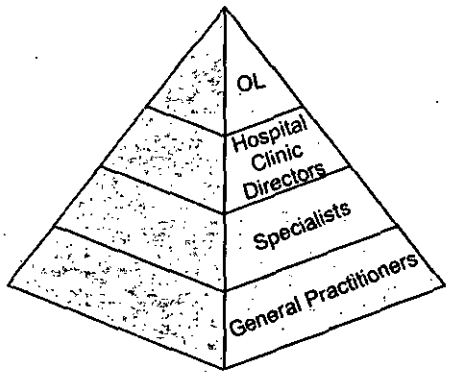

Fig 2.4 The pyramid of influence

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The top of the pyramid is occupied by the commonly called opinion leaders (OLs), who are usually full university professors or leaders of medical associations. They have gained the respect of their peers after long years of pioneering the use of new methods and medications and successful practice.

Next on the pyramid are the hospital clinic directors or department heads, who lead a team of various-ranking institutional physicians, and may or may not be involved in the teams' promotions. The people in this category sometimes have the right to determine first treatment choice within the department, while in other settings the choice is completely up to the treating physician in the unit.

Medical specialists form the next hierarchical level, becoming experts in their field following long years of focused training and practice.

Finally, there is a large body of general practitioners (GPs), alternatively called pathologists or family physicians in some countries, who do not have a medical specialty training and work in medical settings where they come in contact with a large number of diverse medical cases. They usually refer the difficult cases to specialists.

The pyramid of influence describes the ongoing flow of knowledge and influence from the Opinion Leaders all the way to the GPs, and should be utilized in the same way by pharmaceutical marketers introducing a new medicine to the market. In other words, gaining the early approval of top ranking OLs can later be used in a cascade of influence or knowledge sharing to present the merits of the new medicine throughout the pyramid. Opinion Leaders are usually introduced to new drugs through the clinical trial process, and this introduction is one of the major responsibilities of medical marketing managers.

The medical prescribing decision is a process that has attracted the attention of marketers, psychologists, and others. Obviously, the identification of distinct decision-making steps and the influencing factors involved might yield important information for the successful marketing of prescription pharmaceuticals to physicians. The prescribing decision-making process involves a primary decision of selecting the therapeutic class most appropriate to every case, as well as a secondary decision of selecting a brand among those offered within the therapeutic class. The steps involved in both processes are (a) problem recognition; (b) an information search on available treatment options and medicinal choices; (c) an evaluation of existing therapeutic alternatives; (d) the actual prescribing decision; and (e) a postprescribing evaluation of the benefits received from the treatment selected.

Influencers

This large and diverse group of stakeholders comprises Opinion Leaders (who may or may not be active prescribers themselves), pharmacists, other health care professionals (nurses, psychologists, social workers, rehabilitation workers, and so on), supply chain intermediaries (distributors, wholesalers, suppliers), hospital administrators, external consultants, medical sales representatives, and others. Although their characteristics and needs are diverse, they can all influence the prescribing decision, and thus are important industry stakeholders. These stakeholders need to be carefully identified and must have their needs fulfilled in order to facilitate the commercial success of pharmaceutical products.

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Opinion Leaders

As previously mentioned, **Opinion Leaders** may not be active prescribers, holding, instead, academic, administrative, or even political positions that keep them away from everyday medical practice. Nevertheless, being at the top of the pyramid of influence, they need to be approached early by pharmaceutical marketers and given access to a new product's clinical trial profile so that they may become educators or conference speakers of the products merits from the beginning. Their invitation to premarketing brainstorming sessions and activities or inclusion into advisory boards or task forces are critical later during the product's launch phase. The OLs' motives include professional visibility and recognition, the right to educate or influence others, the possibility of influencing policy making, and the opportunity to contribute to clinical practice guideline creation or new product development. Marketers should bear in mind that a subtle, respectful, and nonbiased approach is needed, instead of a "hyperactive," force-feeding, or hard-selling one.

Pharmacists

Pharmacists are becoming increasingly important in the managed care trend sweeping across the United States and northern Europe. In view of the cost-containment principle of these environments and the accountability of prescribers and pharmacists, increasingly more substitution rights are given to the pharmacists. Thus, a pharmacist, or Pharmacy Benefits Manager (PBM), relies on the recommendations of institutional or national formularies when selecting a less expensive therapeutic equivalent of the one prescribed, often a generic. Manufacturers, then, are obliged to present detailed, pharmacoeconomic data to the pharmacists in support of their claims, or are forced to significantly lower their prices in order to avoid formulary exclusion.

In addition, **hospital or retail pharmacists** have other distinct needs and wants that should be considered. For example, large packaging may quickly take up valuable shelf space and light- or temperature-sensitive formulations may require expensive climate-controlled facilities. Also, patient information material, in-store displays, and large manufacturer advertising campaigns that will lead customers into their pharmacies are some of the needs of this stakeholder category.

Health Care Professionals

Health care professionals are another valuable link in the health care delivery chain. Their efforts support those of the primary providers and are responsible for significant contributions into patient treatment. Actually, chronic patients may see their nurse or physical therapist more often than their treating physician and nurses and physical therapists are the ones that explain adverse drug events and the importance of compliance to patients. In some cases, busy physicians only select a therapeutic class, while their long-time nurse chooses the product brand to be given to an inpatient. Pharmaceutical marketers need to evaluate the contribution of health care professionals on a per hospital basis, and proceed into educating and informing these stakeholders about certain disease or product characteristics.

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Hospital Administrators and Medical Sales Representatives

Hospital administrators are the behind-the-scenes financial managers who often mandate hospital drug budgets and, depending on their influence, may be treated as influencers or actual customers (described later in this chapter). Finally, medical sales representatives are among the most undervalued influencers; and their tasks and activities.

Regulators

As seen in the previous chapter, the pharmaceutical industry is one of the most government-regulated industrial sectors (others include food, air travel, and so on). There are multiple regulatory controls and levels, starting with the institutional, to the local, national, international, or even global level. Furthermore, regulation is not only restrictive and inhibiting, but can be promoting or even rewarding. The major aspects of government influence on the pharmaceutical industry are summarized in Table 2.5.

Most experts would agree that the main industry issues facing government regulation are collaboration, compliance, harmonization, negotiation, and lobbying. The latter is a critical activity that global players need to conduct with commitment and determination across legislative or national borders. Furthermore, it has been often proven that direct confrontation with national authorities has not led the industry to any significant gains, but instead has caused added resistance and animosity.

Financers

This category includes those stakeholders who provide resources to a health care system, such as state reimbursement funds, insurance agencies, and employers.

Table 2.5 Aspects of Government Influence on the Pharmaceutical Industry

Funding	Regulating	Promoting	Rewarding
R&D grants	Patent protection	Influence on other governments	Innovation awards
Social security	Registration	Local industry incentives	Export awards
Facility creation	Reimbursement	Substitution legislation	Quality awards
	Pricing	Disease diagnosis campaigns	Orphan drug exclusivity
		Manufacturing	
		Marketing	
		Prescribing decision	
		Trade barriers	

Their motives are open accessibility for all citizens and employees to health care, fairness, transparency, accountability, and cost containment. Once again, the managed care reform has shifted the traditional "fee-for-service" relationships to a relationship where financers directly negotiate with MCPs on service level and costs. In turn, MCPs strongly negotiate with providers as they do with pharmaceutical manufacturers on treatment costs and cost-to-benefit ratios. This chain of events has increased the player awareness of pricing strategies and pharmacoeconomics, and forced pharmaceutical manufacturers to become more efficient and pharmacoeconomics-minded.

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Consumers

Although prescribers are the industry's direct customers, the final consumers of pharmaceutical products are individual (patients) and organizational buyers. We will study these two categories and attempt to identify their needs and motives when purchasing pharmaceuticals.

Patients

A large amount of literature has been devoted to the study of patient needs, wants and rights. Within the context of this book, the focus is on the patients' needs as well as the important concept of compliance. These are directly related to industry's marketing strategies. Figure 2.5 shows the processes involved in consumer decision making and involvement in the purchase of pharmaceuticals. When decision-making is routine and involvement is low, a consumer is driven by inertia when selecting a pharmaceutical that is available without a prescription (OTC), as in the case of a topical antihistaminic medication. If, however, the consumer's involvement is high then he or she is driven by brand loyalty, as in the case of chronic treatments for asthma or ulcer. The effects of product branding then become crucial. Conversely, if consumer decision-making is extended but involvement is low, a consumer may seek multiple medical consultations and a variety of pharmaceutical interventions. Finally, if both decision-making and consumer involvement are high, as in the case of a severe and chronic disease, then the consumer is faced with a complex situation that will require repeated medical visits and diagnostic tests and a complicated pharmacological treatment scheme, as well as additional lifestyle changes (altered diet, physical exercise, and so on).

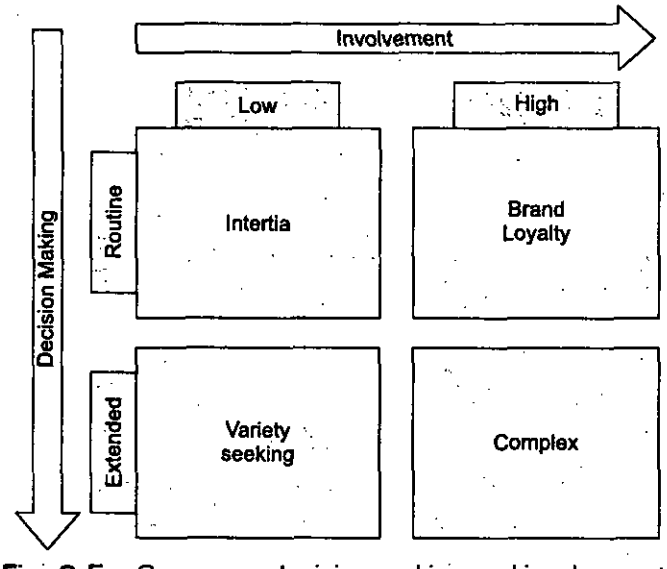

Fig. 2.5 Consumer decision making and involvement in the purchase of pharmaceutical care

One of the most important health care issues, which has direct implications on the pharmaceutical industry, is the issue of patient noncompliance. Some impressive patient compliance statistics are: 20 percent of prescriptions are never filled; more than 50 percent of patients make significant mistakes in following the prescribed dosage scheme; more than 50 percent of patients attempting a lifestyle change never complete it; and almost 90 percent of patients attempting radical diets fail to

lose weight. What is patient noncompliance then? There are actually several different types including (*a*) adherence to prescribed medications, (*b*) undergoing required laboratory tests, (*c*) attendance of follow-up schedule, and (*d*) making lifestyle changes.

Figure 2.6 summarizes the basic types of patient medication noncompliance. This phenomenon is a frequent origin of suboptimal treatment outcomes and doubts coming from prescribers, patients, and their families on the merits of pharmaceutical care, as well as a waste of health system resources. There are multiple factors contributing to this type of patient noncompliance such as treatment scheme complexity, perception of the disease, family input, elderly patients, patient information quality (Summary of Product Characteristics [SmPC], patient literature, and so on), and poor communication with health care professionals (physicians, nurses, pharmacists, and so on).

These obstacles to good compliance have been recently confronted by both health care providers and the pharmaceutical industry, leading to more "holistic" or comprehensive health care delivery methods, covering wellness, prevention, treatment guidelines, compliance-improving tools, education, information, products, and services. These methods belong to the commonly called **disease management** initiatives.

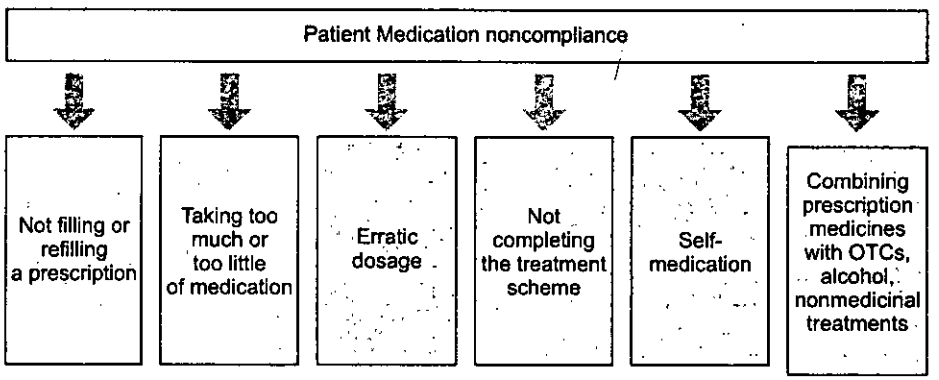

Fig. 2.6 Patient medication noncompliance

Organizational Buyers

Organizational buyers of pharmaceutical products share certain similarities with individual consumers, but are also characterized by large differences that require special industry approaches. This customer grouping is composed of physicians and nurses, hospital pharmacy directors, formulary specialists, pharmacy benefit managers, financial administrators, and others who usually work in teams assigned to compare, evaluate, and purchase large pharmaceutical orders from manufacturers. Team members hold the role of users, influencers, buyers, deciders, and gatekeepers, while their groups have been collectively called "buying centers" or "purchasing teams." Table 2.6 summarizes the main differences of organizational buyers from retail (independent) pharmacists, their buying structure, and the steps involved in their purchasing decision, as well types of purchases and prevailing trends.

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Table 2.6 Characteristics of Hospital Buying

Versus Retail	Buying Structure	Buying Phase	Buying Type	Trends
Fewer	User: Physician, Nurse	Problem Recognition	First purchase	Supplier quality assurance
Larger	Influencer: Clinic Director	Need Recognition	Repurchase	Value-added engineering
Closer relationships	Buyer: Purchasing Department	Product specifications	Modified repurchase	Just-in-time delivery
Derived demand	Decider: Board of Directors	Supplier identification		Tender business
Inelastic demand	Gatekeepers: Accountants	Proposal gathering		Long payment terms
Professional purchasing		Ordering		Hospital formularies
Systems buying		Performance evaluation		Strategic alliances

(*Scrip*, 2426/27, April 7/9, 1999. Reproduced with permission from PJB Publications Ltd.)

The organizational buying decision is more complex than the individual customer's decision-making, and involves the following steps (Robinson et al. 1967):

1. identification of need
2. determination of product characteristics and quantity needed
3. definition of exact product specifications and critical needs
4. identification and evaluation of potential suppliers
5. collection and analysis of proposals
6. evaluation of proposals and selection of suppliers
7. selection of order frequency
8. performance feedback and evaluation.

Pharmaceutical marketers must pay significant attention to assigning steps to and analyzing the organizational buyer decision-making process on a per hospital basis. It is also important to be aware of which specific processes and tools have been in place at that institution so that an optimal approach is designed and implemented. Some of the most common methods used by managed care pharmacy directors to create a prescription benefit are the following:

1. pharmacy and therapeutics committee
2. therapeutic equivalency programs
3. generic equivalency programs
4. tenders
5. academic detailing
6. coinsurance
7. dispensing limitations
8. drug utilization review (DUR)
9. drug utilization evaluation (DUE)
10. outcomes management.

A practical approach of industry marketers toward todays managed care buying teams involves identifying the players involved and their decision-making steps.

This is the first critical step in crafting an institution-specific strategy. Furthermore, formulary management within the institution needs to be addressed and hospital-required disease management programs and activities must be "packaged" with the pharmaceutical products under discussion. Ambulatory patients need to be the focus of such an effort, because in-hospital stay represents only a small fraction of the overall treatment schemes needed for chronic and severe diseases. Additionally, there is an increasing trend for a just-in-time (JIT) delivery schedule, which needs to be discussed and arranged with the company's supply chain colleagues. Overall, addressing the needs of the organizational buyer is a multidisciplinary and arduous process that needs to be adapted to different institutions and modified if competitive or other environmental forces necessitate it.

Different Stakeholder Needs

In conclusion, the industry's stakeholders represent a diverse and large group of individuals and organizations with their own specific needs and desires. Figure 2.7 summarizes the main stakeholder groups and their respective needs. The needs of different stakeholders are often in conflict. For example, fully insured patients demand the best possible care irrespective of costs, while their insurers try to contain costs and protect their profitability. Also, opinion leaders may be promoting the use of newer, more efficacious and expensive pharmaceutical products, while an active prescriber with an elderly clientele is more concerned with the drugs' interactions profile or their costs. Finally, patient advocate groups often confront the regulators, demanding faster access to innovative and promising medications.

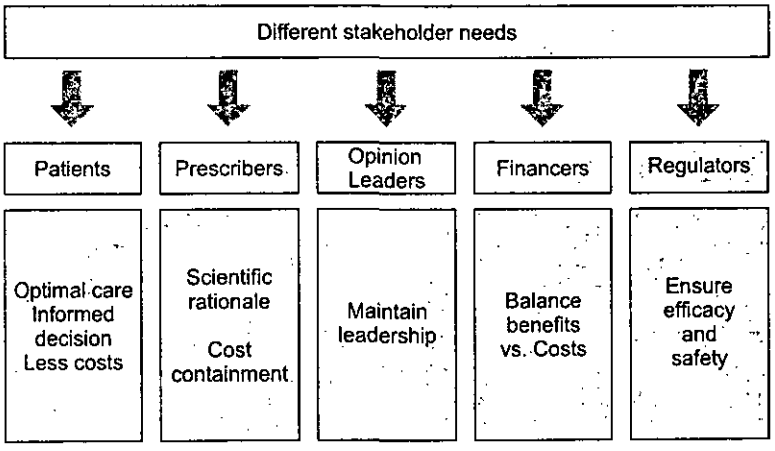

Fig. 2.7 Different stakeholder needs

Once again, a strategic, multidisciplinary approach by the pharmaceutical industry is needed, and addressing every single stakeholders needs in a nonbiased and balanced way is a prerequisite for success in todays marketplace.

SUMMARY

- The concentration of global players within the industry has caused an intensely competitive market environment in most geographical or therapeutic market segments.
- There are a host of associated industries closely involved with the pharmaceutical industry.

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- A pharmaceutical company's *stakeholder* is any person or group of persons with which the company has, or wants to develop, a relationship.
- The top of the pyramid is occupied by the commonly called opinion leaders (OLs), who are usually full university professors or leaders of medical associations.
- **Pharmacists** are becoming increasingly important in the managed care trend sweeping across the United States and northern Europe.
- A large amount of literature has been devoted to the study of patient needs, wants and rights.
- Organizational buyers of pharmaceutical products share certain similarities with individual consumers, but are also characterized by large differences that require special industry approaches.
- In conclusion, the industry's stakeholders represent a diverse and large group of individuals and organizations with their own specific needs and desires.

REVIEW QUESTIONS

1. What do you understand by pharmaceutical industry?
2. What are different stakeholders of a pharmaceutical industry?

FURTHER READINGS

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UNIT III: THE PHARMACEUTICAL MARKETING ENVIRONMENT

NOTES

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe the concept of marketing product.
- know what is marketing management?
- explain the marketing mix.
- know about the production management.

3.1 INTRODUCTION

The value of UK pharmaceutical exports in 1997 was £ 5.5 billion—equivalent to more than £ 90,000 per employee. ABP1, 1998

The preceding chapters focused on the operational environment (the "battlefield") of pharmaceutical industry, presenting the characteristics of the health care environment, health care regulation, and the pharmaceutical industry and its stakeholders. This discusses the recurring ethical considerations of pharmaceutical marketing and analyzes the product mix and marketing environment of his industry. The reader also will be invited to study the elements of product management and medical marketing and to identify the similarities and idiosyncrasies of the marketing of pharmaceutical products versus other market sectors.

NOTES

3.2 THE CONCEPT OF MARKETING: PRODUCTS SATISFY NEEDS

It is difficult to avoid marketing activity in the electronic age we all live in. In other words, marketing is all around us. It reaches us in our home, through television, radio, newspapers, magazines, or even by word-of-mouth from someone who has been satisfied by the merits of a recently purchased product. We are also exposed to marketing's activities while driving (via radio or road signs) or while shopping or working or jogging at the park. One would suggest that marketing is visible everywhere.

Can marketing also be "invisible" to the naked eye? The answer is yes, through myriad ways. Can the visiting prime minister of a developing country be "marketing" his country to the leaders of a transnational group of countries, or even the board of directors of the World Bank? Can a singer be "marketing" her albums when she sings the national anthem at a sporting event? Can arms' dealers be "marketing" their products when they comment on their capabilities on an evening TV news show? Or, can the makers of a fountain pen be "marketing" their product when it is "casually" zoomed in on during a blockbuster movie? Most of us would agree that these are all different forms of marketing and they can all be practiced and improved upon by studying the science of marketing.

Looking back at the previous examples, one might think that marketing is strictly for-profit. Why else might a person or an organization invest in a marketing activity if not for profit? The answer this time is that marketing is not only for-profit. There are several examples of people or organizations involved in not-for-profit marketing. For example, the armed forces are actively seeking some brave new recruits. Physicians are sending reminder cards to their patients to remind them of a checkup. Religious organizations are involved in marketing in order to strengthen their parish and increase the level of donations. Finally, environmental, human rights, and patient organizations are investing millions of dollars for marketing their agendas and improving their effectiveness. Obviously, the organizations mentioned are depending on the results of their campaigns to ensure their long-term survival.

Based on this information, how can we define marketing? Here are some definitions of marketing from famous organizations or marketing thinkers. Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals (American Marketing Association, 1985); marketing is the management process responsible for anticipating and satisfying customer requirements profitably (The Chartered Institute of Marketing, in Jenner, 2000); marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products of value with others (Kotler and Clarke, 1987); and marketing is the entirety of the business from the perspective of the customer (Drucker, 1993). Looking through these definitions one concept stands out—*satisfying customer needs*. Most experts would agree that marketing is all about identifying customer needs and wants, and building products that will satisfy them. More precisely, marketing's scope is satisfying customer needs, thus retaining them, which leads to building long-term relationships and ultimately acquiring more customers (see Figure 3.1).

NOTES

The satisfaction of customer needs, wants, or demands is one of the core concepts of marketing. As the other units of this book show, the role of marketing within today's organizations, from the conception of a new product idea to the products decline and potential market withdrawal, is of paramount importance for satisfying those customer needs. The pioneering work of Maslow has categorized these customer needs, from the absolutely essential physiological needs, of the need for safety, of social and love needs, to the self-esteem and self-actualization needs (see Figure 3.2).

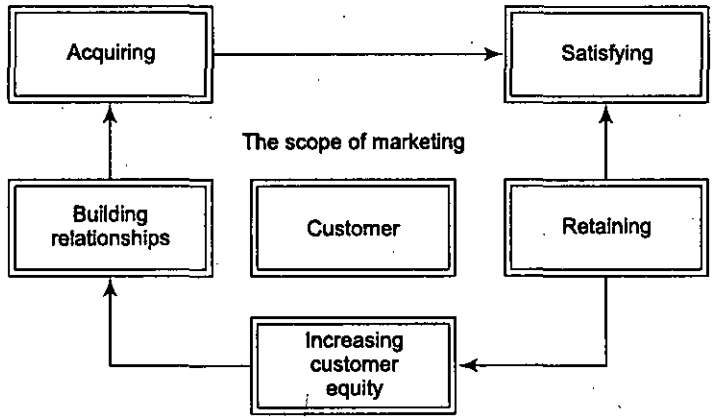

Fig. 3.1 The scope of marketing

The needs' hierarchical pyramid model has been used extensively by marketers in assessing, categorizing, and argeting their product offerings toward the satisfaction of these needs. Products exist today that satisfy almost all of these human needs to a varying degree of customer satisfaction. However, one of the axioms of today's marketing is that not all of these needs have been satisfied by marketable products, or that the customer may not be aware of some of these needs, which are voids that marketing attempts to fill. Another way of looking at the needs-to-marketing relationship is the schematic presented in Figure 3.3. Thus, customer needs, wants, and demands necessitate the design and commercialization of new products, which

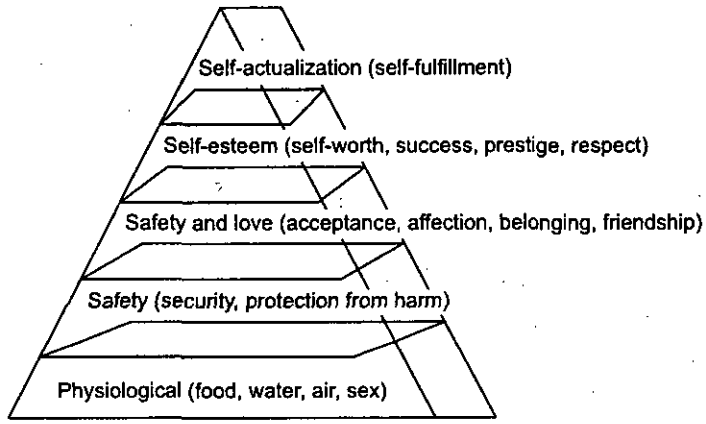

Fig. 3.2 Maslow's Hierarchy of Needs

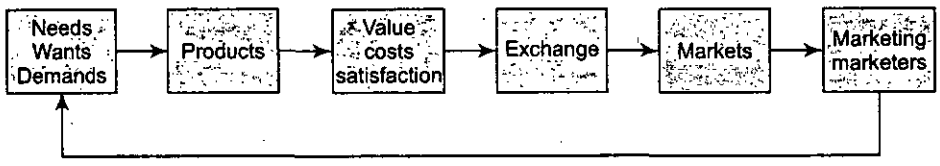

Fig. 3.3 Core concepts of marketing

in turn represent an internal customer value, a cost, and a level of satisfaction. This leads to a monetary exchange, which is the prerequisite for the formation of a market and the application of marketing.

3.3 MARKETING MANAGEMENT

NOTES

Having discussed the concept of marketing, we can now discuss the art of blending all the required marketing activities into a coherent, strategic framework. *Marketing management* is the analysis, planning, implementation, and control of programs designed to bring about desired exchanges with target markets for the purpose of achieving organizational objectives (Kotler, 1980). As Figure 3.4 shows, the marketing management process has six distinct components. These include:

1. analysis of the environment, competition, and the organization, which leads of the identification of marketing opportunities;
2. study of the market and identification of distinct market segments;
3. marketing strategies specifically designed for the chosen market segments;
4. detailed planning of marketing programs and activities created of achieve the previously set strategic objectives;
5. organization and implementation of a network of marketing activities; and
6. evaluation and control of all marketing activities.

These marketing processes and activities are planned, executed, and evaluated by a variety of marketing managers, who hold different titles and stand at different hierarchical levels within the organization.

Is marketing management, then, a creative activity or a science? It is probably a blend of both. As a science, marketers can study today's marketing intricacies and techniques in an academic environment. As a creative activity, some marketers without an academic marketing background can succeed with charisma and enthusiasm. Whatever the contribution of each pathway, a sound academic base can only enhance and bring such charisma of the surface.

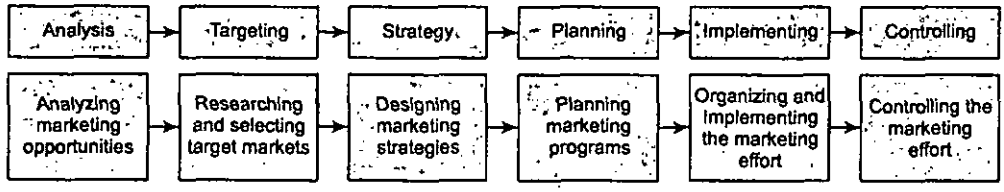

Fig 3.4 The marketing management process

3.4 PHARMACEUTICAL VS. CONSUMER MARKETS

Suppose you were a successful consumer goods marketer that, after a proven track record, was hired by a pharmaceutical multinational to market its new line of antibiotic products. With the didactic content of your MBA studies fresh in your mind and the successes of your marketing career fresh in your heart, you would go about creating new product development plans, advertising campaigns, and unique selling points. Clearly, however, after talking to prescribers, regulators, and your own medical sales representatives, you would discover that pharmaceutical markets bear distinct differences from your prior battlefields.

Peculiarly enough, the patient consuming your product is neither the decision maker, nor the buyer. Additionally, ethical, regulatory, and liability considerations would be much higher in the case of antibiotics than electric home appliances. And finally, brand loyalty and price sensitivity would be less of a problem than the fierce competition seen in the computer or travel industries. An overview of the main differences between consumer and pharmaceutical markets is presented in Table 3.1.

What, then, are some of the particular aspects of pharmaceutical marketing? They are: (*a*) more stringent regulation of the industry as opposed to consumer markets: a level of regulation matched by very few other sectors (for example, airline travel); (*b*) the necessity for huge R&D investments, often surpassing 20 percent of annual revenues; (*c*) the sensitive issue of patient rights; and (*d*) a variety of other ethical issues, such as animal welfare and environmental protection.

3.5 ETHICAL CONSIDERATIONS OF PHARMACEUTICAL MARKETING

As previously noted, pharmaceutical and consumer markets, with their many similarities, also have significant differences that set them apart. Related to the idiosyncrasies of the pharmaceutical market is the fact that the marketing of pharmaceutical products, although revered and admired in other sectors, is all too often the recipient of strong criticism from consumers and authorities alike. In fact, the marketing of pharmaceutical products is often thought of as wasteful, intrusive, and manipulative, as well a cause for lower healthcare quality, social inequality, and unnecessary demand. And indeed, in the lay person's eyes, a medication is only a social good, which should be either completely reimbursed by the state or sold at cost by the manufacturer for the good of humankind.

Table 3.1 Comparison of Pharmaceutical to Consumer Markets

	Pharmaceutical	Consumer
The consumer is the decision maker	Not true	True
The consumer pays directly for the product	Not true	True
Product brand loyalty	Higher	Lower
Importance of ethics	Higher	Lower
Degree of government regulation	Higher	Lower
Liability considerations	Higher	Lower
R&D complexity	Higher	Lower
R&D on humans necessary	Yes	No
R&D costs	Higher	Lower
Price sensitivity	Lower	Higher

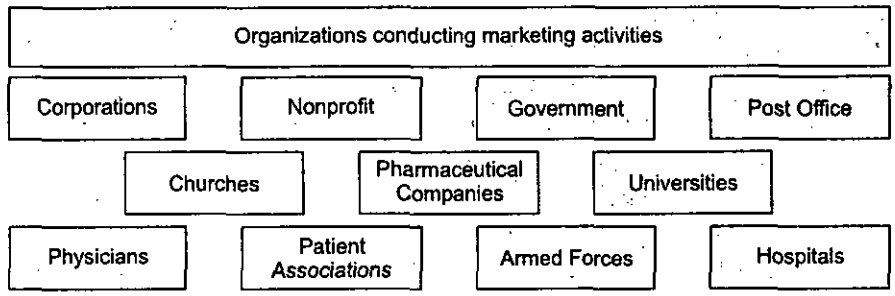

Fig. 3.5 Organizations conducting marketing activities

In other words, why should pharmaceutical manufacturers use extravagant advertising, which drives their prices up or creates social inequalities among different social classes?

Several authors have already addressed these ethical issues, and the debate is frequendy rekindled. The following list summarizes why some of these criticisms are faulty, using the framework first proposed by Kotler and Clarke (1987) on health care marketing in general.

NOTES

Criticism	Why false
Wasteful	The pharmaceutical industry is a for-profit sector, like so many others (automobiles, energy, and food). Industry players allocate a small portion of their revenues to marketing activities in defense of industry or generics competitors (see Figure 3.5). A scenario of completely abolishing marketing expenses by shifting them into new R&D is a Utopia because R&D, or any other department, cannot work in a vacuum.
Intrusive	Health care professionals often describe horror stories of hard-selling industry representatives. While his phenomenon may hold true for a small percentage of sales professionals or their employers, it is by no means representative of the vast majority of innovative manufacturers who maintain high-quality, ethical standards of conduct, abide by national and international guidelines, and have gained the respect and partnership status from health care professionals around the world.
Manipulative	Industry critics often attack all industry-sponsored medical activities, including congresses, continuing medical education, and research. Nevertheless, the conduct of these activities is supervised and controlled by relevant institutional, government, or rade bodies, and the synergy resulting from such interaction is recognized by many as a force of innovation and advancement.
Lowers health care quality	The promotion of pharmaceutical products cannot influence the health care professionals' and patients' mindset if the promoted products lack necessary merits or do not satisfy unmet therapeutic needs. To the contrary, the successful commercialization and promotion of innovative medicines is the sole fuel used by large R&D departments constantly looking for new therapeutic solutions.
Creates social inequality	The promotion of innovative and often high-priced pharmaceutical products is not the origin of social inequality per se. Industry professionals are not designing new product offerings with certain social classes in mind. Instead, they are offering new innovations to humankind's therapeutic medicine chest. However, government or private organization insurance and reimbursement policies may be deemed unequal, and it is up to the citizens or employees to correct these injustices within the available democratic procedures.

Creates unnecessary demand

The promotion of pharmaceutical products to prescribers or direct-to-consumers (DTC) is not the cause of overprescribing or over consuming pharmaceutical medications. These phenomena are related to a variety of demographic and social factors, which can be influenced positively through education and information for prescribers and patients on the merits of optimal treatment guidelines, compliance, and mutual dialogue. These are issues that have been addressed by the disease management movement.

NOTES

3.6 THE MARKETING MIX

The result of marketing activities is a mix of product characteristics and benefits, commonly called the *marketing mix*, a term first introduced by Borden in 1964. The basic elements of the marketing mix are the product, price, place, and promotion (collectively coined the four Ps of marketing). Figure 3.6 shows some of the main elements constituting each of the four Ps, which are discussed in detail (see also Table 3.5).

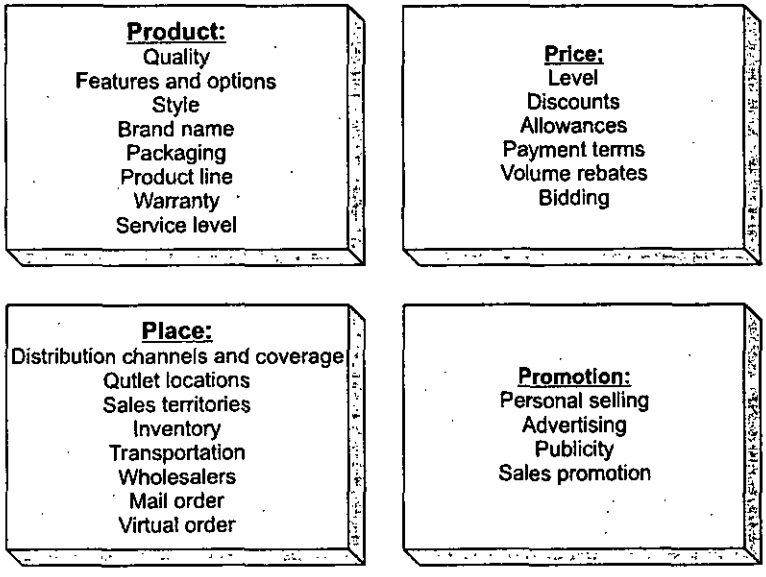

Fig. 3.6 Marketing's 4 Ps

Product

The foremost element of the marketing mix is the product. This term encompasses the combined offerings of the seller to the customer, and may have a angible or intangible nature. For example, a product can be a physical good (leather bag, computer, or pencil), a service (haircut, shoe polish, or train ticket), or even an idea (environmental protection, political amnesty, or patient advocacy). A variety of definitions have been given to describe the product, including the following two: (1) "Anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need" (Kotler, 1991); and (2) a good, service, or idea consisting of a collection of tangible and intangible attributes that satisfies consumers and is received in exchange for money or some other unit of value (Zikmund and D'Amico, 1996).

NOTES

One of the elements of the product concept is the existence of multiple product features that, even in the case of goods, can be tangible or intangible and physical or emotional. Figure 3.7 presents the concept of core and augmented product features. For discussion purposes let us use the example of an automobile for looking at the various product features associated with it.

Generic product features is a term describing the inherent product features, which, in the car's case, are its engine, seats, windows, body, and so on. This term should not be confused with the "generic pharmaceutical" term, which is explained later. *Expected* features are those existing in the mind of the customer, which are not necessarily present in all makes and models, such as fast acceleration or high maximum speed. *Augmented* product features is an extremely critical term, used to describe all other features, services, and benefits the car manufacturer bestows on its model in order to make it more appealing to the customer. For example, a spare tire is an augmented feature, as is financing provided by the dealer, or free engine service, or free roadside assistance for a period of time. These augmented features play a significant role in the commercial success of the car model; thus car marketers go to great lengths in offering the most appealing features to their clientele.

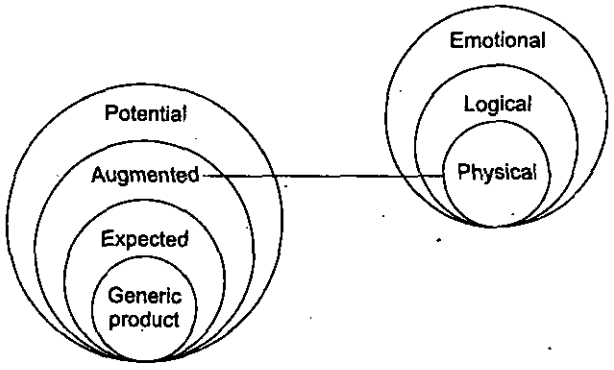

Fig. 3.7 Core versus augmented product features

They can even be categorized as physical (car alarm or gold plated key ring), logical (roadside assistance), and emotional (a convertible's image as a status symbol).

Products similar in nature and aimed at the same customer segment are often grouped by organizations in product lines or sets of products with similar features and marketing needs. A company's *product portfolio* is characterized by product line width and depth, as shown in the example of a pharmaceutical portfolio in Figure 3.8. Thus, a product line width is the number of different product lines within the organization, while a product line depth is the number of individual products within the same product line.

A *pharmaceutical product*, or drug, is broadly defined as any chemical agent that affects the processes of living. Related terms include *pharmacology*, the science focusing on the history, source, physical and chemical properties, compounding, biochemical and physiological effects, mechanisms of action, absorption, distribution, biotransformation and excretion, and therapeutic and other uses of drugs; *pharmacokinetics*, the pharmacologic area dealing with the absorption, distribution, biotransformation, and excretion of drugs; and *pharmacodynamics*, the area dealing with the study of the biochemical and physiological effects of drugs and their mechanisms of action (Goodman Gilman, 1990). Figure 3.9 shows

a pharmaceutical product's essential fingerprint signatures. These include the products nomenclature, its mandatory accompanying documentation, and its labeling.

Recent decades have seen a dramatic ransformation of the characteristics and values of any pharmaceutical product. These shifts have come about from environmental changes such as the empowerment of patients, government measures around the globe o reduce health care costs, changing prescriber needs, or even the increased globalization and communication between health care stakeholders around the world. A decade ago, a concerned patient needed only a blood cholesterol-reducing pill. Today, the concerted environmental forces surrounding the pharmaceutical industry are demanding a more efficacious, safe, and easy to use medication,

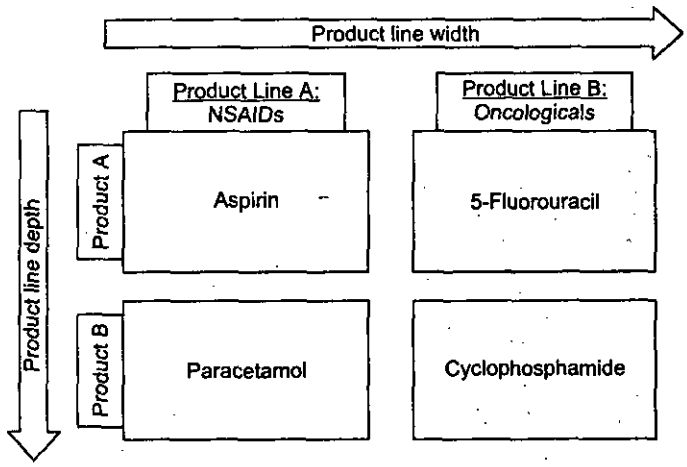

Fig. 3.8 Product line width and depth

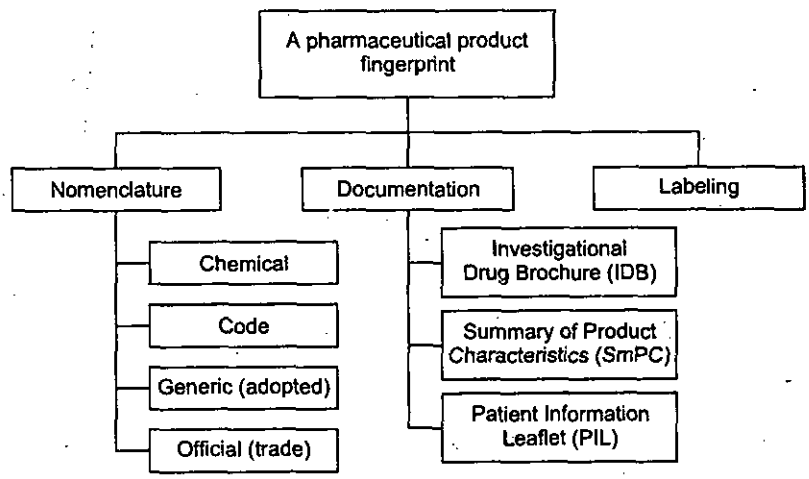

Fig. 3.9 A pharmaceutical product fingerprint

accompanied by disease treatment guidelines, offered by a company hat cares about the patient's quality of life as well as the environment, at an affordable price in all parts of the world (Table 3.2).

Due to the changing nature of pharmaceutical products, each product aimed at successfully competing in its therapeutic category has to carry a set of product and economic components that are well defined and superior to the offerings of competitors. Together, these components make up only a part of the perceived product value in the eyes of stakeholders. Product components can be distinguished in core values (efficacy, safety, and ease of use) and augmented values (see Table 3.3).

NOTES

But why do physicians prescribe a particular pharmaceutical over a competitive product? And, why do patients seem to develop a brand loyalty to one of the many products taken by them during their life? It is important to realize that, as in the case of a consumer buying a "hole" instead of a "drill," a patient buys a product benefit instead of a product characteristic. Indeed, patients of all ages buy a decrease in body emperature or relief from the itching caused by a topical burn.

Table 3.2 The Evolving Nature of a Pharmaceutical Product

View	Description	Customer Benefit
Old	Blood cholesterol-reducing pill	Cholesterol lowering
Modern	Revolutionary, efficacious, and safe active substance plus	Efficacy and safety
	Patient-friendly administration device plus	Painless use
	Disease management services plus	Treatment guidelines
	Innovative disease prevention ideas plus	Prevention
	Patient well-being-minded employees plus	Caring
	Patient-, environment-, and cost-minded organization plus	Affordability, Ecology
	Product availability for all mankind (not market-restricted)	Universal access

Table 3.3 Characteristics of Pharmaceutical Products

Product Components		Economic Components	
Core values	**Augmented values**	**Price-related**	**Nonprice-related**
Efficacy	Ease of use	Actual price	Distribution channels
Safety	Temperature stability	Competitive pricing	Channel intensity
Tolerability	Shelf life	Price-value relationship	Channel length
Speed of action	Patient education	Discounts	Channel integration
Quality	Physician information	Return-on-investment	Promotional level
Cost	Patient association support		Promotional channels
	Mail delivery		Advertising intensity
	Company Web site		Personal selling effort
	Branding		

A concerned mother buys decreased swelling in her child's allergic skin. Table 3.4 provides examples of various patient benefits offered by modern pharmaceuticals.

Place

The second element of the marketing mix is place—are the customers exposed to the company's product offerings in the right place, at the right time, and in the right condition? The term "place," therefore, refers to physical distribution, channel management, and customer service. The process of physical distribution involves activities such as transportation, warehousing, materials handling, packaging, and so on, and is extensively.

A *channel of distribution* is a group of individuals, processes, and systems that have been set in place to facilitate the transfer of a product from the manufacturer to the hands of the final consumer in an efficient and effective manner. In essence, the involved individuals are distribution intermediaries, and include distributors, wholesalers, agents, brokers, shippers, freight-forwarders, retailers, and others. A typical ethical pharmaceutical distribution system is shown in Figure 3.10.

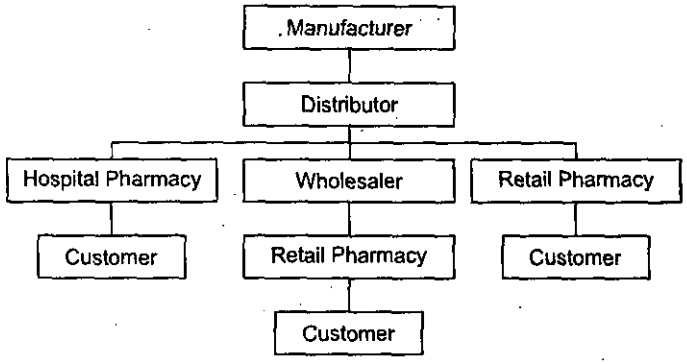

Fig. 3.10 Ethical pharmaceutical distribution channels

Table 3.4 Are Patients Shopping for a "Drill" or a "Hole"?

Product Characteristic	Patient Benefit
Efficacy	No fever . . . independence
Safety	No complications . . . risk-free mindset
Tolerability	No injection site redness . . . Same appearance
Dosage	Once weekly . . . Freedom to ravel
Route of administration	Oral syrup . . . Mixing with morning milk
Formulation	Pre-filled syringe . . . Hassle-free herapy
Information	Informed choice

Price

The third element of the marketing mix—price—refers to pricing objectives and strategies, price adjustments, and payment terms. This is an often-misunderstood term because it represents different things to different people. In general terms, price is the value attributed to a product or service. What is important in every exchange of a product or service for a price is the price fairness, or price-benefit relationship. For example, a high profit-earning price for the seller may be an unfairly high price for the buyer. Alternatively, a budget price sought by the buyer may not be the optimal income-making price for the seller. Therefore, it becomes essential for each seller to thoroughly evaluate the customers' price perceptions and expectations, and charge his or her product offerings accordingly. In the eyes of the buyer, a products price perception is a mix of its quality, functionality, competitors' product prices, and personal benefits expected from its purchase. On the seller's side, price is revenue and profit-making; thus the profitability, financial stability, and long-term survival of the organization may depend on setting a proper price.

The elements of price, price-influencing factors, and concepts of price sensitivity and elasticity, as well as different pricing strategies as pertaining to the sale of pharmaceutical products are thoroughly.

Promotion

Once marketers have created a product hat is appealing o customers, identified a fair price, and made it physically available to the final consumers, they must then present their products by marketing them to consumers. This important ask is achieved through promotion, which includes advertising, public relations, sales promotion, and personal selling. These elements are shown in Figure 3.11.

The four elements of promotion comprise what is called the *promotional mix*, which companies create in various ingenious ways to communicate their product or company advantages to their publics. These elements are represented in Table 3.5 and further.

NOTES

3.7 PHARMACEUTICAL MARKETING ENVIRONMENT

Let us now look more closely at the pharmaceutical marketing environment and try to identify the various internal and external factors that have an influence on pharmaceutical products' success in the marketplace. Table 3.6 lists the main environmental factors contributing to the industry's environment. A marketer would identify internal industry factors intrinsic to the pharmaceutical company as the mission, resources, and culture. Other factors include those who have a close relationship to its operations or can be affected by its strategy and actics, such as distributors, prescribers, and financers. On the other end of the spectrum, external factors include political, economic, social, technological, or natural factors, whose influences are more indirect but often very important for the success of the company's efforts.

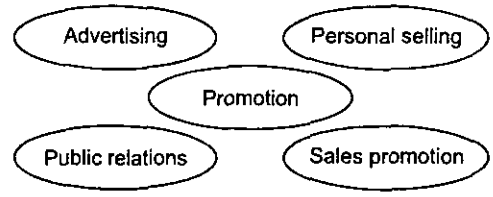

Fig. 3.11 The elements of promotion

The analysis of environmental factors affecting the industry is critical to the design of successful marketing strategies, and is described by the terms *situational* and *competitor analysis*, which are presented in subsequent units. Furthermore, suppliers' power and other competitive forces surrounding the industry.

3.8 PRODUCT MANAGEMENT

A company's marketing department structure is illustrated in Figure 3.12. Central to his organizational structure is the existence of distinct strategic business units (SBUs), usually focused on separate therapeutic areas, and directed by Business Unit Managers (BUMs). Each BUM leads a structure of marketing and sales professionals to collectively work for the achievement of the business unit goals. the core professionals working for a given business unit are product managers, medical affairs managers, and sales managers.

Pharmaceutical product managers, or brand managers, are the core marketing strategists of the company. They are supposed to be true "product champions," that is, the professionals deeply involved and knowledgeable in all aspects of product development, premarketing, marketing, and life-cycle management. The merits of his critical position have been studied by many marketing experts who have expressed both advantages and potential disadvantages for such a job title (see Figure 3.13). Nevertheless, it remains at the core of pharmaceutical marketing departments worldwide and is responsible for most pharmaceutical product aspects consumers are aware of.

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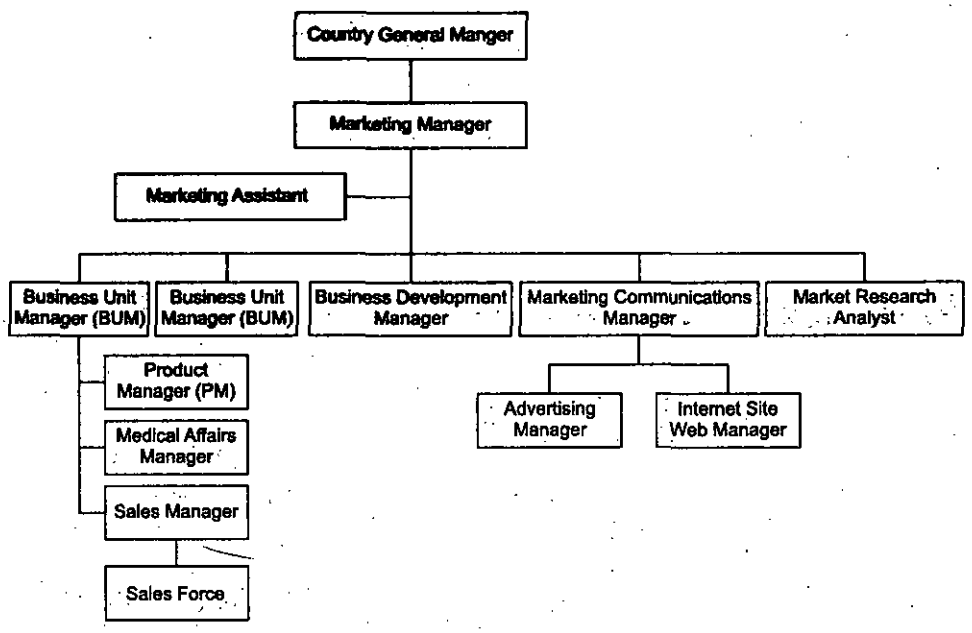

Fig. 3.12 A company's marketing department organization

Table 3.5 Marketing Mix Variables for Pharmaceutical Products

4Ps	Component	Description
Product		
	Benefits	Better quality of life, reduced disease symptoms, reduced hospitalizations, independence, ability to work and enjoy family life
	Attributes	Formulation characteristics and ease of use, taste (if oral), local discomfort (if injectable), needleless injector device, child-safe bottle cap
	Quality	Efficacy, safety, tolerability, active substance, inactive ingredients, packaging, administration device, precipitation of solution
	Safety	Safety, tolerability, drug interactions, contraindications, special warnings, overdosage, existence of antidote, safety index, long-term effects
	Warranties	Active substance quantity, expiration date, no solution precipitation, no binding with container glass or IV ubing, return policy, credit
Price		
	Pricing objectives	Meet competition, build image, satisfy intermediaries, increase sales volume, sensitize customer, maximize income, abide by regulation
	Customer demand	Customer perceptions, adoption rate, primary and secondary demand, elasticity of demand, cost structure, life-cycle stage, market potential
	Competitor pricing	Price levels and cost structure, pricing objectives and policies, discounts, tender pricing, price leadership, price war, entry barriers
	Discounts	Cash or volume discount, free delivery, promotional allowance, price hold, extended credit, lower interest, sale or return policy, package deals

NOTES

Place		
	Channel objectives	Delivery speed, frequency and consistency, inventory availability, condition of delivered goods, invoicing accuracy, customer service
	Channel structure	Integration, number of intermediaries, distributors, wholesalers, retail independents, retail chains, brokers, agents, shippers, Web dispensing
	Trade barriers	Import quotas and licensing, standards requirements, domestic subsidies, customs, taxation, profit repatriation, parallel imports, embargoes
	Physical distribution	Water, railroad, motor, air, shippers, freight forwarders, intermodal carriers, brokers, agents, time, costs, reliability, bill of lading, tracking
Promotion		
	Promotion objectives	Inform, persuade, remind, prescribing decision, push and pull, target audience, product characteristics
	Advertising	Regulation, direct and indirect channels, objectives, budgeting, message decision, media and agency selection, production, evaluation
	Personal selling	Prospecting, uncovering customer needs, product detailing, key accounts, information, demonstration, negotiation, maintaining relationships
	Public relations	Press relations, events, exhibitions, speeches, philanthropy, written and audiovisual PR material, internal PR, agency selection, planning
	Sales promotion	Premium incentive, point-of-purchase display, coupon, specialty printing, promotion fulfillment, telepromotions, refunds, rebates, sweepstakes

Table 3.6 Overview of he Pharmaceutical Marketing Environment

Internal			
Influencing Factors	**Players Suppliers**	**Intermediaries**	**Customers**
Financial resources	Raw material producers	Distributors	Physicians
Mission	R&D material producers	Advertisers	Nurses
Structure	Equipment manufacturers	PR firms	Patients
Technology		Financial services	Hospitals
Culture			Wholesalers
R&D			Pharmacists
Quality/Leadership/Creativity			General public

External Factors				
Political	**Economic**	**Social**	**Technological**	**Natural**
Legislation	Inflation rate	*Demographic:*	New products	Shortages
Government agencies	Interest rate	Age structure	New markets	Renewable
Lobbyists	Credit availability	Family	Increased efficiency	Energy costs
Governments are:	Disposable income	Race	Robotics	Pollution
Regulator	Propensity to save	Geography	Biotechnology	Emissions
Purchaser	Reimbursement	Ethnic	Genomics	Packaging
Supplier	HMOs	Religion	Internet	Government intervention

Competitor		Education Occupation *Culture:* Basic values Perceptions Preferences Behaviors		

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The key responsibilities of a pharmaceuticals product manager include the following: managing, improving or modifying existing products; providing information/reports for management; strategy development/marketing planning; new product development; pricing policy; monitoring product performance/satisfaction; monitoring sales/profit performance; forecasting/liaison with production; setting up/supervising trials and testing; advertising, PR, and promotions; opinion leader relationships; and office/field sales training and support.

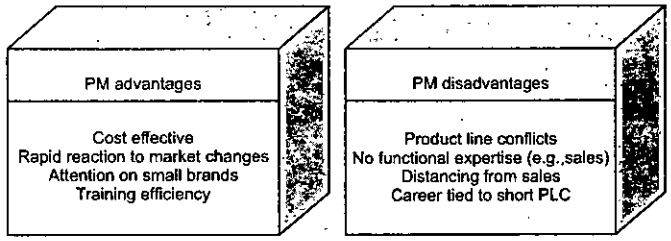

Fig. 3.13 Product management structure advantages and disadvantages

SUMMARY

- Marketing management is the analysis, planning, implementation, and control of programs designed to bring about desired exchanges with target markets for the purpose of achieving organizational objectives (Kotler, 1980).
- These marketing processes and activities are planned, executed, and evaluated by a variety of marketing managers, who hold different titles and stand at different hierarchical levels within the organization.
- The result of marketing activities is a mix of product characteristics and benefits, commonly called the marketing mix, a term first introduced by Borden in 1964.
- Generic product features is a term describing the inherent product features, which, in the car's case, are its engine, seats, windows, body, and so on.

REVIEW QUESTIONS

1. Discuss the marketing management in the pharmaceutical industry.
2. Discuss the ethics in pharmaceutical industry.

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PART II: MARKETING STRATEGY

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UNIT I: DEFINITION OF MARKETING STRATEGY

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe the planning of marketing strategy.
- know about the cash studies.
- explain the values of marketing strategy.

1.1 INTRODUCTION

Pharmaceutical companies put one dollar out of every five dollars of revenue back into research and development—a higher percentage than virtually any other U.S. industry.

Pharmaceutical Research and Manufacturers of America (PhRMA), 1998

The previous unit described marketing management as the analysis, planning, implementation and control of programs designed to bring about desired exchanges with target markets for the purpose of achieving organizational objectives. One of the core elements of this process is planning, that is setting the course toward a desired destination. The planning process has also been called "crafting a strategy," in reference to the war strategies crafted by skillful, decisive

generals. In the business world, *strategy* is a statement describing the general course the company will follow to achieve its objectives. It helps companies focus on a "strategic competitive advantage," avoiding wasted efforts and resources seeking customers whose needs can be better satisfied by a competitor. A strategy is needed for these two reasons: (1) to proactively design the course of action; and (2) to align and coordinate every member of the organization.

Who sets the strategy in the organization? Is it a top-down approach, where top company executives design the company strategy and communicate it directly to the front sales people? Or can it be a bottom-up approach, where skilled sales and marketing managers respond to the customers by designing the company strategy for everyone else to follow? The answer is that corporate strategy follows a thoroughly planned cascade, as seen in Figure 1.1, starting with the definition of the company's vision by the top management.

The first step in this procedure is setting the corporate *vision*, namely, the desired state of the organization in the future. Next, comes setting the *mission*, that is, creating a set of directions to achieve the vision. The mission is a reflection of internal capabilities. It emphatically describes the reason for the company's existence. Some of the essential contents of a company's mission statement are its core products, target customers, company values, geographical and technological areas that define its existence. A detailed presentation of the contents of a mission statement is presented in Table 1.1.

Following setting the company's mission, corporate objectives are defined; for example, the required standards of company performance within a given therapeutic category worldwide. The corporate objectives are then translated into SBU objectives. You may remember that an SBU is a functional team usually focused on marketing a single therapeutic area. Some of the basic SBU characteristics are that it is separately planned, has respective competitors and possesses a responsible and accountable management team.

An SBU objective could be the capture of a 50 percent unit market share, or a 20 percent value sales growth in the next year. These objectives are then broken down into individual product objectives, such as 20 percent market share of product A and 7 percent market share of product B. The individual product objectives are transformed into marketing objectives, for example, the prescriber awareness level of the given products is to be over the 80 percent mark by the end of next year. The marketing objectives give rise to sales objective, that is, to achieve a certain amount of unit/value sales for product A. Finally, total company sales of product A are broken down into district sales and then into personal sales representative objectives, which in turn help define company's objectives from individual prescribers or hospitals. A detailed example of the strategic cascade is presented in Table 1.2.

During the process of crafting a corporate strategy cascade, pharmaceutical marketers should remember the following important points. The vision must be communicated throughout the organization; a clear strategic direction must be formulated; the strategy must be linked to the planning and budgeting process; and the strategy must be effectively implemented, evaluated, and periodically revised.

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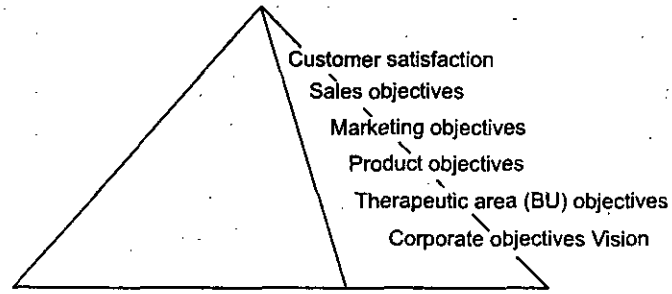

Fig. 1.1 Corporate strategy levels

Table 1.1 What's in a Mission Statement?

Alternative Names	Role	Contents	Example
Mission	Set the starting points	Core products	To become market leader in ...
Corporate objectives	Give directions	Target customers	By yearly growing by...
Reason for existence	Unite the people	Geographic areas	... by the year . . .
Credo	Define product mix	Core technologies	Harnessing biotechnology . . .
Creed	Define markets	Company values	... to provide our partners with . . .
Corporate belief	Describe organizations	Survival, profit, and growth goals	And becoming the preferred partner . .
Corporate goals and values	Set geographical areas		
Corporate philosophy	Define market ranking		
Management statement	Identify core technologies		
Raison d'etre	Define desired growth		
Guiding principles	Identify the self-concept		
Foundations	Set desired public image		
Value statement			
Business purpose			

1.2 CASE STUDIES

Let us now study the mission and value statements of two of the world's foremost pharmaceutical multinationals, namely, Merck & Co., Inc. and Schering-Plough Corporation.

Merck & Co., Inc.

Merck & Co., Inc. is a leading research-driven pharmaceutical products and services company. Merck discovers, develops, manufactures and markets a broad range of innovative products to improve human and animal health. The Merck-Medco Managed Care Division manages pharmacy benefits for more than forty million Americans, encouraging the appropriate use of medicines and providing disease management programs.

Table 1.2 The Corporate Strategy Cascade

Level	Example of Goal
Vision statement	Become the preferred partner to our stakeholders.
Mission statement	Capitalize on our biotech expertise within categories X and Y.
Corporate objective	Achieve market leadership in the therapeutic category.
Business unit objective	Show a 15% market growth in the category.
Product/market objective	Increase product A's market share by 7%.
Marketing objective	Communicate product A's unique selling points to specialists.
Sales objective	Reach value sales of 65 million Euros with product A.
Sales district objective	Achieve sales of 11 million Euros for the South district.
Sales person objective	Have sales of 1.5 million Euros coming from John Smith's territory.
Key account objective	Achieve sales of 260,000 Euros from Professor Z.
Customer satisfaction	Get a 90% Quality of Life rating from Professor Z's patients.

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Our Mission

The mission of **Merck** is to provide society with superior products and services—innovations and solutions that improve the quality of life and satisfy customer needs—to provide *employees* with meaningful work and advancement opportunities and investors with a superior rate of return.

(Merck & Co., Inc., 1999. Reprinted with permission of Merck & Co., Inc.)

Our Values

Our business is preserving and improving human life. All of our actions must be measured by our success in achieving this goal. We value above all our ability to serve everyone who can benefit from the appropriate use of our products and services, thereby providing lasting consumer satisfaction.

We are committed to the highest standards of ethics and integrity. We are responsible to our customers, to Merck employees and their families, to the environments we inhabit, and to the societies we serve worldwide. In discharging our responsibilities, we do not take professional or ethical shortcuts. Our interactions with all segments of society must reflect the high standards we profess.

We are dedicated to the highest level of *scientific excellence* and commit our *research* to improving *human* and animal health and the quality of life. We strive to identify the most critical needs of consumers and customers, we devote our resources to meeting those needs.

We expect *profits*, but only from work that satisfies customer needs and *benefits humanity*. Our ability to meet our responsibilities depends on maintaining a financial position that invites investment in leading-edge research and that makes possible effective delivery of research results.

We recognize that the ability to excel—to most competitively meet society's and customers' needs—depends on the integrity, knowledge, imagination, skill, diversity and teamwork of employees and we value these qualities most highly. To this end, we strive to create an environment of mutual respect, encouragement and teamwork—a working environment that rewards commitment and performance and is responsive to the needs of employees and their families.

(Merck & Co., Inc., 1999. Reprinted with permission from Merck & Co., Inc.)

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Schering-Plough Corporation

Schering-Plough is a worldwide pharmaceutical company committed to discovering, developing and marketing new therapies and treatment programs that can improve peoples health and save lives.

The Company is also a recognized leader in biotechnology, genomics and gene therapy.

Core product groups are allergy/respiratory, anti-infective/anticancer, dermatologicals and cardiovasculars.

Pharmaceutical product lines are complemented by health management programs, a growing worldwide animal health business as well as leading consumer brands of sun care, foot care and over-the-counter products.

Innovative research, effective marketing and solid financial management have enabled the Company to achieve significant sales growth, deliver superior financial results and reward shareholders.

1.3 FROM WORLDWIDE VISION TO LOCAL TACTICS

How do pharmaceutical company managers move from a theoretical and futuristic vision statement to actual strategy and tactics pertaining to every level of the organization, down to the level of a single medical sales representative? In broad terms, there are three main considerations in crafting a corporate strategy.

- Where are we now?
- Where do we want to go?
- How do we get there?

The distinct steps involved in the pharmaceutical strategy framework, as well as each step's content, time frame and objectives are summarized in Table 1.3.

1.4 DEFINITION OF MARKETING STRATEGY

Having defined its core portfolio strategies for the organization for the next several years, a company then creates individual department strategies covering every organizational aspect and contributing to the overall strategic plan. Thus, as Figure 1.2 shows, strategies are created for manufacturing, finance, R&D, distribution, human resources and marketing functions.

Marketing strategy is a plan identifying what basic goals and objectives will be pursued and how they will be achieved within the specified time. The strategy development framework is shown in Figure 1.3.

See Table 1.4 for marketing strategy components. The detailed analysis and discussion of these elements is presented in the following chapters.

Marketing strategies may refer to therapeutic areas (*e.g.*, infectious diseases), product lines (*e.g.*, third generation cephalosporins), or individual products (*e.g.*, cephalosporin A). The latter is a *product strategy,* that can apply either to a global or a national scale.

Table 1.3 Pharmaceutical Strategy Framework

Strategy Level	Content	Area	Responsibility	Time Frame	Objective	Example
Vision	Desired future company state	Company in the future	Board of Directors	Long term	Long-term profitability and survival	Top five global companies
Strategic Plan	"Which therapeutic areas, which regional markets	Company therapeutic/ regional priorities	Executive Committee	5 years	Focus on core competencies and core national markets	Central Nervous System (CNS) and cardiovascular leader in U.S., Europe, Asia
Business Plan	Portfolio selection, resources allocation	Allocation of resource across company departments	Executive Committee	3 years	Balanced portfolio selection and strategy-driven resource allocation	Sales and R & D investments equally in three therapeutic area
Therapeutic Area Strategy Plan	Which products, which customers, which claims	Therapeutic area worldwide	Headquarters therapeutic area team	3 years	Building a sustainable competitive advantage for every product	Product X the leading anti-asthma choice by respiratory doctors
Global Marketing Plan	Product, distribution, pricing and promotional strategies	Therapeutic area marketing mix	Headquarters therapeutic area marketing team	Next year	Designing the elements of each product's marketing mixon a global scale	Intensive distribution, premium pricing, heavy advertising
Local Marketing Plan	Implementation of marketing mix in national market	SBU within a national market	National SBU marketing team	Next year	Adjusting the global marketing mix strategy to individual national markets	Detailed marketing mix activity plan for product X in market

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Fig. 1.2 Corporate strategy components

1.5 STRATEGIC PLANNING

Strategic planning is the process of envisioning a desired future state, defining goals and objectives and designing marketing and other organizational strategies and tactics to be implemented in the future. Planning is not only analysis and evaluation of the status quo, but also consideration of possible future scenarios, and design of alternative company strategies in anticipation of changing trends. Planning takes place at all company levels within the strategic cascade framework described at the beginning of this unit. Thus, it can be in the form of executive committee planning sessions at a remote resort, planning the company's future in the next twenty-five years, or it can be the individual brainstorming of sales force representatives for next week's call plan. Furthemore, strategic planning is an essential tool for either headquarter or subsidiary organizations, each looking at marketing strategy from their respective operational environment's perspectives. This fact does not, by any means, imply that subsidiary entities may have opposing or conflicting strategies with those set by headquarters. Instead, they should both be focused on the same objectives and goals and define their activities within their respective geographical boundaries.

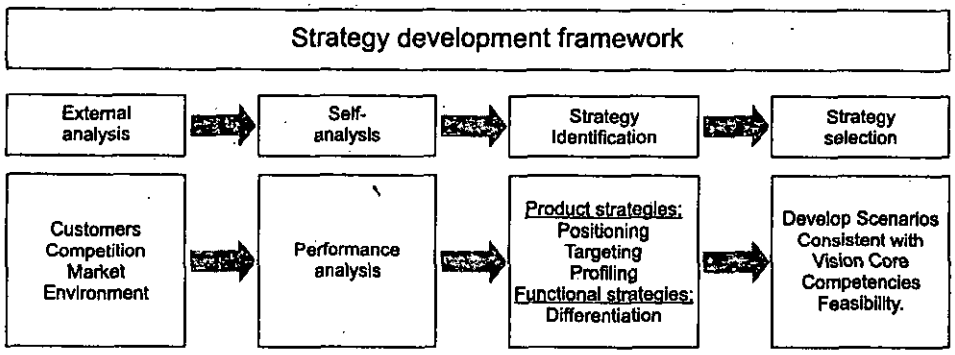

Fig. 1.3 Strategy development framework

Table 1.4 Marketing Strategy Components

	Corporate Strategy	
1.	Strategic objective	Expand market share, increase profitability.
2.	Strategic focus	Expand market, penetrate market, increase productivity.
3.	Customer targets	Target segments, position the product.

4.	Competitor targets	Define competitive positioning and competitive strategy.
5.	Differential advantage	Create a segmentation and positioning plan.
6.	Marketing mix	Products, prices, promotions, distribution.
7.	Organization and implementation	Structure and systems, professionalism, commitment.

(Doyle, 1994.)

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The planning process can be divided into distinct planning stages, as described in Table 1.5. Each of these planning stages are presented in later units, under the scope of a practical pharmaceutical marketing guide.

1.6 STRATEGY VS. TACTICS

Let us now focus on some relevant terms associated with strategic planning. A *strategy* is a statement describing the course toward objectives. *Objectives* are the desired destination points of the strategic journey. A pharmaceutical marketing objective is a pharmaceutical product's goal within a defined market and time; for example, to achieve sales of 1 million U.S. dollars in the oral contraceptives market in 2001. *Tactics* are the specific activities designed to implement the crafted strategy; for example, the implementation of a TV advertising campaign during the next few months. Furthemore, *assumptions* are "calculated guesses" of the future on which

Table 1.5 Pharmaceutical Planning Stages

Identify and Evaluate Opportunities	Analyze Market Segments and Select Target Markets	Plan a Market Position and Develop a Marketing Mix Strategy	Prepare and Execute a Marketing Plan	Control Efforts and Evaluate the Results
Identify unmet therapeutic needs	Situation analysis	Position product offering	Describe situation	Evaluate sales and shares
Assess total market size	Environmental scanning	Profile product offering	Present therapeutic areas	Evaluate positioning
Construct patient journeys	Environmental monitoring	Develop product strategy	Describe positioning	Evaluate pricing
Identify target physicians	SWOT analysis	Develop distribution strategy	Define sales objectives	Evaluate distribution
Evaluate physicians' needs	Competitor analysis	Develop pricing strategy	Describe marketing tactics	Evaluate promotion
Identify pipeline candidate	Identify key success factor	Develop promotional mix	Allocate resources	Make adjustments
Assess candidate's profile	Identify leadership niche	Set marketing goals	Perform profit and loss	Measure changes

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Table 1.6 Examples of Pharmaceutical Marketing Strategy and Tactics

Strategy	Tactics
Become market share leader	Hire and train 15 new sales representatives.
Grow sales by 20% every year.	Visit key accounts once weekly.
Penetrate 10% of market in launch year.	Prepare 3 new detail aids per year.
Achieve 75% product awareness level.	Organize launch symposium on Malta.
Have sales force ranked among top 5.	Conduct 4 prescriber focus groups.
Capture 40% unit market share next year.	Conduct DTC campaign during hay fever season.
Gain product reimbursement fast.	Distribute 1,000 new product gimmicks.

important strategic implications are based; for example, it is assumed that the newly launched product will gain reimbursement status in its third year of sales. Table 1.6 lists some examples of pharmaceutical product strategies and tactics.

SUMMARY

- *Marketing strategy* is a plan identifying what basic goals and objectives will be pursued and how they will be achieved within the specified time.
- Strategic planning is the process of envisioning a desired future state, defining goals and objectives, designing marketing and other organizational strategies and tactics to be implemented in the future.
- *Objectives* are the desired destination points of the strategic journey. A pharmaceutical marketing objective is a pharmaceutical product's goal within a defined market and time.

REVIEW QUESTIONS

1. Discuss the marketing strategic.
2. Describe the strategic planning.

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UNIT II: MARKETING RESEARCH

NOTES

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- know what is the risk of research?
- describe the marketing information system.
- explain the process and methodology.
- know about the research of qualitative methods.

2.1 INTRODUCTION

In 1997, of a worldwide total of 52.2 million deaths, 17.3 million were due to infectious/ parasitic diseases, 15.3 million due to circulatory diseases, 6.2 million due to cancer, 2.9 million due to respiratory diseases and 3.6 million due to perinatal conditions.

WHO, 1998

In the constantly changing pharmaceutical market environments characterized by vast R&D costs, heightened competition, increased regulation and ever more demanding consumers, pharmaceutical marketers are called upon daily to make critical judgements and decisions. They evaluate a market's potential, the possible influence of new government regulatory restrictions, the effect of past price lowering by competitors, or the extent to which a new product satisfies the needs of prescribers and patients.

In addition to their prior education and professional experience, they rely on accurate, timely and detailed information describing the factors that have are or will be affecting their business operating environment in the future. This same information allows them to identify potential problems and opportunities, compare their therapeutic offerings with the competition and test new ideas against customers needs, wants and attitudes. Some experts even claim that, in the Twenty-

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first Century, the pharmaceutical industry will be relying equally on internal competencies, financial resources and information. Based on this, the logic that underlies the concept of marketing research may now be better understood. Some definitions of marketing research are: the systematic and objective process of obtaining information needed for taking marketing decisions (Zikmund and D'Amico, 1996) and the function that links the consumer, customer and public to the marketer through information—information used to identify and define marketing opportunities and problems; generate, refine and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyzes the results and communicates the findings and their implications goals (American Marketing Association, 1987).

This unit describes what marketing research is the process of designing and conducting research and analyzing the data collected. It also presents some of the most common information needs of pharmaceutical marketing professionals. Let us look more closely at why market research is done in the first place: to identify unmet therapeutic needs; to predict customers' demand for a new medication; to identify why the competition is successful; to find out the market size and growth; to know all category product sales and market shares; to assess proper pricing; to identify demand seasonalities or trends; to prevent crises and failures; to identify key targets; to evaluate the company's public image; to measure prior successful new product launches; and to suggest potentially successful advertising and promotion programs.

2.2 RISKS OF RESEARCH

Marketing research involves several risks and this is especially evident in the sensitive field of pharmaceuticals intended for human use. For instance, poorly designed marketing research may contain investigators bias or lead to erroneous interpretations that may lead the company into an expensive and fruitless R&D plan or to implement a bad marketing strategy. Such potential research risks include the following: bias (sampling/non-sampling); confusing, subjective managerial beliefs with statistical significance; confusing relationship with causality; expense; lack of confidentiality; over-relying on quantitative data; poor design; time delay; wrong assumptions; wrong data; wrong interpretation; and wrong type of research.

The following terms describe marketing research excellence. *Research reliability* refers to whether the marketing research yields the same results in repetitive measurements. *Research validity* refers to whether the marketing research yields the result it is supposed to give.

2.3 INFORMATION NEEDS

The pharmaceutical industry's information needs are diverse and constantly expanding. These needs can be categorized in large groupings, which include all aspects of the market environment, competition and stakeholders. In general, pharmaceutical marketers need information about prescribers, patients, retail pharmacies, hospital pharmacies, wholesalers, academics, competition and the

market. A detailed listing of frequentlyconducted marketing research tests by the industry is presented later in this unit.

2.4 MARKETING INFORMATION SYSTEM

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Following the definition of a marketing information need, the design of a thorough marketing research plan and the collection of relevant data, the pharmaceutical marketer is often faced with the problem of vast amounts of data that need to be properly stored, retrieved, analyzed and distributed to all pertinent personnel within the organization. Therefore, it becomes critical to the whole process of marketing research to design and implement a Marketing Information System (MIS) that conducts all these tasks with accuracy, timeliness and confidentiality.

Marketing information systems are usually based on computer hardware software systems and are set up as illustrated in Figure 2.1. Let us look more closely at this schematic. Internal and external information sources are combined to create an internal marketing information database. A marketing decision maker (e.g., a marketing manager, a product manager, or a marketing research specialist) is then required to extract meaningful conclusions from the collected data that adds competitive advantage to the whole organization. In their evaluations, these professionals often rely on an associated system called a *decision support system,* that is a computer-based application that offers the opportunity to incorporate market histories, product life cycles and future forecasts in a comprehensive *marketing scenario playing.*

The process in which a pharmaceutical marketer seeks answers to her or his marketing questions starts with strategic research and then moves to concept, or performance, research (as shown in Figure 2.2).

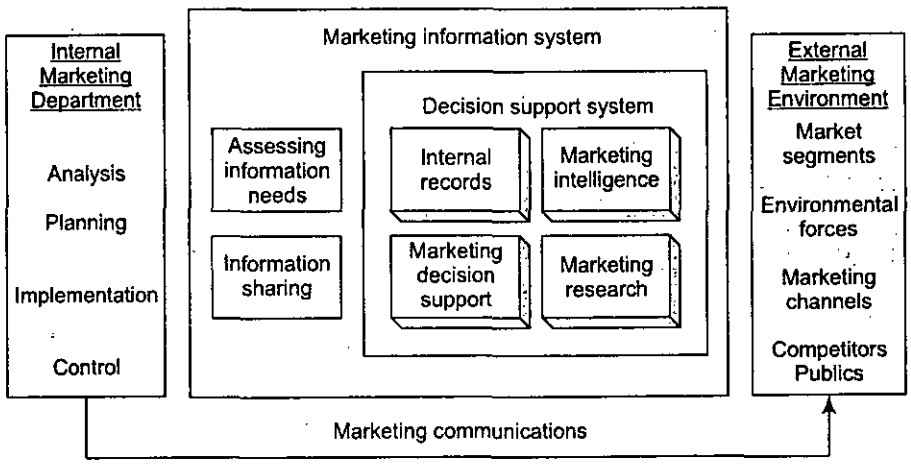

Fig. 2.1 A marketing information system

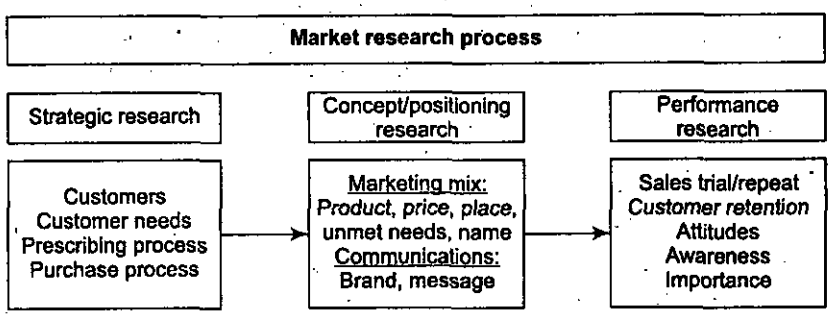

Fig. 2.2 The marketing research process

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2.5 PHARMACEUTICAL MARKETING RESEARCH SUBJECTS

Industry marketers have conducted marketing research on a wide variety of subjects. They are presented below, along with their functions in the pharmaceutical industry as determined by market researchers.

Prescriber

A prescriber's function includes: brand awareness; brand mapping; brand name testing; campaign concept; company image; compliance testing; conjoint analysis; convention research; creative input; customer attitudes; drug benefits rating; lead user analysis; message recall (promotion audit); needs analysis; new product assessment; new product forecasting; new product pricing; OL consensus; opportunity to prescribe; perceptual mapping; prescribing habits (date, specialty, monthly prescriptions, brand name, therapeutic usage, new or continuing patients, authorized refills, size, value, strength, dosage); price elasticity; product design and packaging; product positioning; product profiling and segmentation; receiving promotional materials; readership; sales aid quality; sales force quality; segmentation study; and situation analysis.

Patient

A patients function includes: alternative therapy awareness (brand, generic, OTC, nonpharmacological); brand awareness; brand name testing; campaign concept; company image; compliance survey; conjoint analysis; creative input; customer attitudes; drug benefits rating; medication history; message recall; needs analysis; new product assessment; new product forecasting; new product pricing; patient journey; perceptual mapping; prescription by demography; prescription history (length before switching, compliance, payment method, physician specialty); price elasticity; product design and packaging; product image (value, adverse events, satisfaction, quality of life); product positioning; product profiling and segmentation; product switching (brand to brand/generic); quality of life; segmentation study; situation analysis; and taste testing.

Pharmacy Wholesaler

A pharmacy wholesalers function includes: attitude surveys (on return policy, terms and conditions, competitive products); manufacturer-sponsored deals and sales to retail outlets.

Retail Pharmacy

A retail pharmacy's function includes: attitude surveys (on return policy, terms and conditions, competitive products); inventory and stocking; manufacturer-sponsored deals; market forecasting; brand and generic manufacturers carried; price lists; and retail sales.

Hospital Pharmacy

A hospital pharmacy's function includes: attitude surveys (on return policy, terms and conditions, competitive products); brand and generic manufacturers carried; competitor distribution; incidence of infection, manufacturer-sponsored deals;

market forecasting; patient stay duration; pharmacy inventory, usage and stocking; price lists; price elasticity; product dosage scheme prescribed; product efficacy by pathogen; product formulary status; therapeutic class new member net price paid; product prescribed; product route of administration preferred; product usage by diagnosis; product usage by medical specialty; prophylactic/ postoperative use; therapy prescribed on discharge; and treatment outcome.

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Competitor

A competitor's function includes: core competencies; corporate strategy and goals; distribution strategy; financial analysis (assets, stock performance, brokerage house reports); licensing strategy; management (key personnel, quality); organization (size, structure, climate); patent portfolio; pricing strategy; R&D portfolio; sales performance; sales organization; strengths, weaknesses, opportunities, and threats (SWOT) analysis.

Industry/Market

The industry/market's functions include: business strategy; disease management; disposal of noncore interests studies; due diligence studies; emerging technologies; future trends; generic penetration; industry news; investment research; key success factors; legal/regulatory environment; licensing opportunities; life cycle stage; market characteristics; market potential, market segmentation; market share analysis; merger/ acquisition candidates; new product launches; patents survey (new, expiring); pricing environment; R&D survey (chemical class, trial phase, mechanism of action, company, market); prescription-to-OTC switches; and therapeutic area analysis.

Public

The public's function includes: attitudes; child-proof medication packaging; demographic changes; disease awareness; disease epidemiology; expectations from the government; health care priorities; health care services satisfaction; information distribution; lifestyle needs and wants; patient family member needs; and unmet therapeutic needs.

2.6 PROCESS AND METHODOLOGY

The marketing research process can be divided into distinct steps, namely, (1) defining the problem; (2) setting the research objectives; (3) designing the research plan; (4) selecting the optimal sample and its size; (5) collecting the data; (6) analyzing the data collected; (7) creating a model based on the data; and finally, (8) evaluating this model and deciding on the optimal marketing strategy. A closer look at each of these important steps follows.

Defining the Problem

This step is critical to the whole research process because the wrong definition of a problem may lead pharmaceutical marketers to misleading and dangerous conclusions. To illustrate the value of this step, think of a company that has just launched an innovative, efficacious, and safe new asthma medication with disappointing first-quarter sales. The marketing team is urgently assembled to discuss the reason for sluggish sales, focusing on a single prescriber complaint of

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a high price burden for her patients. A marketing research agency is called in and asked to investigate the price differential among all therapeutic category competitors. Much later, this leads to the conclusion that the high price of the innovative new product may, indeed, be blamed for the disappointing sales and a brave price cut is suggested. Simultaneously, however, thousands of prescribing and purchasing interactions in the market may be revealing other important factors, which have not reached the company. Can it be that the product formulation is not patient-friendly? Or is it the prescribers who have never been properly detailed on the revolutionary and safe mechanism-of-action of the new product? Or, irrelevant to the product characteristics itself, is it the low company image?

A commonly employed method used in marketing research problem definition is *exploratory research.* This process uses a small number of interviewees and explores their beliefs, attitudes, or actual experiences regarding a particular product to uncover the often concealed reasons for their prescribing or purchasing behavior. A more thorough and expansive marketing research is then designed based on these findings. The purposes of exploratory research are: (*a*) to develop hypotheses; (*b*) to better define the problem; (*c*) to establish research priorities; (*d*) to collect information on research methodologies; and (*e*) to test various alternatives.

Setting the Research Objectives

In setting the research objectives, the marketer must strive to be open-minded enough to allow for investigation of far-fetched hypotheses, yet try to stay focused on the problems and issues that are influencing the market conditions or the product's acceptance. Often, research objectives are distinguished as primary and secondary objectives, with emphasis and thoroughness placed on primary objectives and less time and effort alotted to secondary objectives. Consider the following example.

A migraine medication is to be introduced to the Italian market. The company marketers are busy creating their product's targeting and positioning. They have conducted their exploratory research, which led them to the definition of the following research objectives: (1) *Primary:* which medical specialty primarily consults migraine sufferers, what is their practice and prescription volume, what are their unmet needs, and what are their current prescribing habits? (2) *Secondary*: how do they react versus the product's campaign alternatives, their brand awareness, and competitor company image? The process of choosing marketing research objectives is described in Table 2.1.

Designing the Research Plan

Research planning involves the following three main steps.

Selecting a Marketing Research Agency

This is a very sensitive process because, when identifying an able, external partner, it must possess essential characteristics. They are (1) recognition among pharmaceutical marketing peers, (2) prior therapeutic category expertise, (3) available human resources, (4) practical location, and (5) reasonable prices. Following the evaluation of several candidates, a decision is made, task forces are assigned at both the pharmaceutical company and the agency, and the pharmaceutical team thoroughly informs their marketing research partner of the nature of the problem.

Preparing the Research Brief for the Agency

This document has to be thoroughly researched and prepared so that it clearly describes the problem and presents all knowledge about the problem with the external partner.

Table 2.1 Choosing a Marketing Research Objective

Type	Exploratory Research	Descriptive Research	Causal Research
The problem	Unsure of problem	Aware of problem	Problem clearly defined
Example of problem	Why are sales declining?	Which physicians are prescribing the product?	Will patients purchase more in a new formulation?
	Would prescribers be interested in a combination drug?	Who prescribes our competitors' drugs?	Which ad campaign is optimal?
	Would patients be interested in an oral formulation?	What features do patients prefer?	Will prescribers appreciate a DTC campaign?
Typical Design	**Qualitative**	**Survey**	**Experimentation**
Research method	Focus groups, in-depth interviews, secondary data analysis, case studies, observations, projective techniques (word association, sentence completion)	Personal/phone interviews, mail surveys, tracking studies (retail or hospital), test markets	Experiments Quasi-experiments Test markets

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Mutual trust and confidentiality are prerequisites for a successful interaction of this kind. The main parts of such a research brief are the following: (1) problem history and definition, (2) product characteristics, (3) therapeutic category details, (4) regional market characteristics, (5) research objectives, (6) potential research subjects required (*e.g.*, OLs), (7) time requirements, (8) budget allocation, and (9) reporting needs.

Agreeing on the Research Plan with the Agency

In order to avoid possible misunderstandings, conflicts and delays, the final research plan is mutually agreed upon and respectively signed. The research plan usually focuses on the following details: (1) research background, (2) objectives, (3) methods, (4) analysis method, (5) data ownership and confidentiality, (6) pharmaceutical company responsibilities, (7) reporting frequency and format, (8) timetable, (9) research costs and incidentals, (10) any subcontractors involved, (11) task forces and (12) breach of agreement arrangements.

2.7 PRIMARY AND SECONDARY DATA SOURCES

Pharmaceutical marketing research relies on two broad data sources. *Secondary data* describe all information already available through a variety of sources to the marketing team. In contrast, *primary data* are any pieces of information systematically collected for the purpose of the ongoing marketing research project. These two types of research data require different collection methods, as shown in Table 2.2.

Some of the secondary research methods are desk research, do-it-yourself, syndicated, omnibus, and ad-hoc.

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Drug classification according to the underlying disease state is a very significant tool in researching and quantifying pharmaceutical product sales. The Anatomical Classification (ATC) guidelines have been developed by the European Pharmaceutical Marketing Research Association (EPhMRA) and an example of this system is provided in Figure 2.3.

Table 2.2 Primary and Secondary Research Data Collection Methods

Secondary	
Internal	**External**
Sales force	Books
Marketing	Journals
R&D	Government
Legal	Consultants
Manufacturing	Media
Trade	Motion detector

Primary			
Observation	**Survey**	**Simulation**	**Experiment**
TV monitoring	Personal interview	Health foods outlet	Taste test
Scanner-based	Phone interview		Control method
Eye-tracking	Mail survey		Standard test
Pupilometer	Internet survey		
Psychogalvanometer	Mail intercept		
	Home interview		
	Questionnaire		

Marketing research also can be categorized according to the methodology used, that is, qualitative and quantitative, or according to the purpose of the research, that is, into exploratory, descriptive and causal (see Figure 2.4).

2.8 QUALITATIVE AND QUANTITATIVE METHODS OF RESEARCH

Qualitative data refer to people's opinions, beliefs, attitudes, motivations and dispositions. Such data cannot be accurately quantified and measured, tend to be subjective, and tentative. However, the data are invaluable for the study of consumer behavior and play a significant role in pharmaceutical marketing research. Examples of such data include patient needs analysis, or prescriber brand name testing, campaign concept testing, and perceptions of company image.

Quantitative data, on the other hand can be precisely identified, and usually refer to market conditions and actual usage rates rather than attitudes and beliefs. Classic examples of pharmaceutical market quantitative data are sales volume (units and values), market growth, market shares, new product launches, pricing environment, target physician number, or formulation penetration rates. A multivariate comparison of quantitative versus qualitative research methodologies is presented in Table 2.3. What the table shows is that both types of research methodology yield useful marketing data, and have an indispensable place in the armamentarium of a pharmaceutical marketer faced with critical marketing situations. Some of the most commonly used pharmaceutical marketing research data sources are described in Table 2.4.

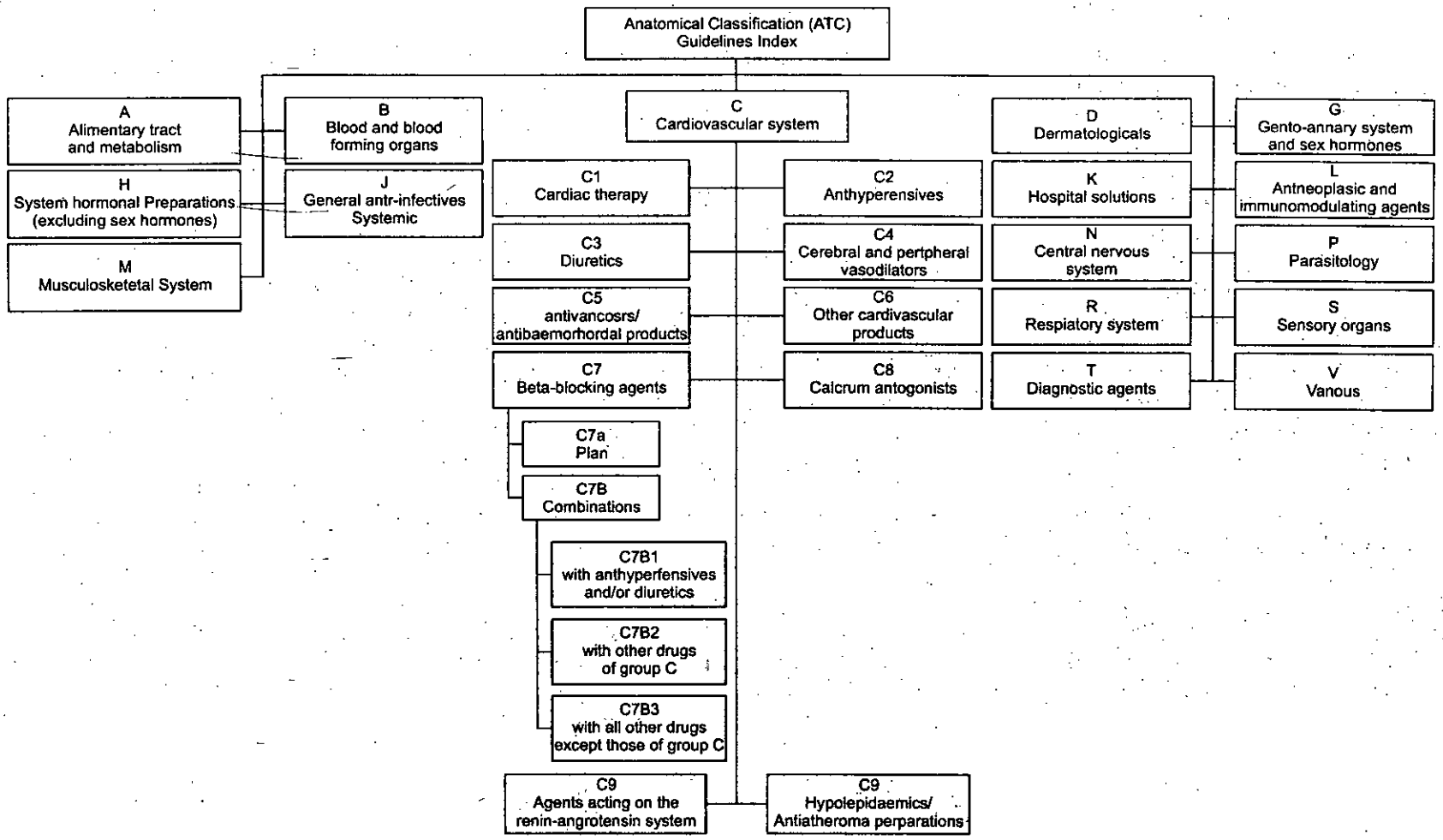

Fig. 2.3 Anatomical classification system

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Selecting the Optimal Sample and Its Size

There are instances when a marketing organization requires the feedback of a very large group of individuals as a measure of future success in their field. A survey of the whole group is called a *census*—such as the general population census of various national statistical agencies around the world. Examples of such groups of individuals include all full university professors of cardiology in Italy, all members of a national growth hormone diagnosis committee in Greece, or all managed care pharmacy directors in a particular American state. In the vast majority of pharmaceutical marketing research projects, however, there are not enough financial and human resources to survey the whole study population, that is, prescribers, patients, and so on. So a *small,*

Fig. 2.4 Marketing research categories

Table 2.3 Quantitative vs. Qualitative Research

Characteristic	Quantitative	Qualitative
Question nature	"How many"	"Why" the customer behavior, what if
Research nature	Quantity-defining	Exploratory
Focus	Historic	Future
Findings' nature	Objective, measurable	In depth, subjective, hard to measure
Findings	Numbers	Opinions, beliefs, attitudes, motivations, and dispositions
Sample size	Large	Small

representative sample of this population must be carefully selected to avoid some of the perils of marketing research (previously mentioned in this unit). The process of sample selection is called sampling, and requires the following questions to be addressed.

What is the Target Population?

If exploratory research findings reveal that laxatives are mainly prescribed by gerontologists (or elderly-treating specialists), then an investigation into this small group is launched. If, however, laxatives are prescribed by family physicians, then a representative sample of this larger physician population must be selected. Finally, if generic OTCs are dominating the market, then supermarket pharmacists or the patients themselves should be asked about their attitudes and purchasing behavior.

How Big Should the Sample be?

The sample should be big enough to show statistical significance about the product differences that the study is trying to quantify, and small enough to be contained within the competing business unit budgets of the same pharmaceutical organization.

How is the Sample to be Selected?

Attention is needed in the actual sample selection because it may negatively influence the outcome of the research. Marketing research specialists have employed

probability sampling techniques (*e.g.*, the random, computer-generated selection of citizens across the country to be asked about their knowledge of hormone replacement therapy benefits), and nonprobability techniques (*e.g.*, the chain pharmacy intercepts of mild acne sufferers who are looking for an OTC therapy in Chicago, Houston, and Los Angeles) (see Table 2.5).

Collecting the Data

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The collection of primary data is done using one of the following research methodologies: (*a*) survey, (*b*) observation, or (*c*) experimentation. Let us look more closely into these methodologies.

Survey

A survey is a systematic research effort collecting information from a sample of individuals, using a questionnaire. Pharmaceutical market surveys can be descriptive (demographic, psychographic), attitudinal, or focusing on prescribing or purchasing behavior (past, future). An *attitude* is defined as an acquired, long-

Table 2.4 Pharmaceutical Market Data Sources

Primary: information derived from research specifically designed to answer a particular set of questions		
Observation	Company audits	
	Hospital audits	
	Retail audits	Intercontinental Medical Statistics (IMS)
	Trade shows	Medical society congresses
	Want ads	
	Reverse engineering	
	Hiring key employees	
	Plant tours	
Experimentation	Market testing	
Questioning	Mail survey	Physicians or patients
	Telephone survey	Physicians or patients
	Personal interview	Sales force, Suppliers, Physicians, Pharmacists, Employees, Consultants
	Focus group	Physicians, Nurses, Pharmacists, Patients, Patient families
Secondary: information already collected by someone else for another reason		
Internal	R&D	Scientific publications
	Marketing	Marketing plans
	Sales	Sales force reports
	Other	Patent databases, Job applicants
External	Trade press	*Pharmaceutical Executive, Applied Clinical Trials, Pharma.*
		Business, SCRIP
	Medical press	Medical research journals, New journals
	Lay press	Newspaper articles, Newspaper publishers, TV and radio stations,
		Business publications (*Forbes, The Wall Street Journal, Business Week, Fortune, Financial Times, The Economist),* Clipping services

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	Books	Science, Technology, Marketing, Management, Biographies
	Databases	Moody's, Dun & Bradstreet, Financial Times
	Government	Health department, Patent office, Census department, Pricing, Reimbursement, Formulary committees
	Trade Associations	Prescribers, Manufacturers, Wholesalers, Pharmacists, Nurses
	Universities	Medical department organizing a satellite symposium backed by the competitor, or a business department holding a case study library
	Chamber of Commerce	
	Investment bankers	Bank reports
	Libraries	
	Internet	Medicine- and pharmacy-related sites, patient sites
	Consultants	Industry reports, reviews, white papers, articles and case studies.
	Customers	Direct information from various customers (see Trade)
	Competitor's	Annual reports, Stock Exchange reports (!OKs), Shareholder meetings, Investor's information, Web site, Press kits, Press releases, Promotional material, Advertising, Employee newsletters

Table 2.5 Marketing Research Sampling Methods

Probability	Nonprobability
Simple random	Convenience
Stratified random	Judgement
Cluster	Quota

term disposition to consistently respond in a given manner to various aspects of the world. Some of the best known attitude measurement methods are **paired set comparison** (product A versus product B, product B versus product C, product A versus product C), **perceptual mapping** (product placement on quality versus price axes), **constant sum** (usually 100 points, divided between various options), **continuous rating** (worst/below average/average/good/very good/best), **Likert scaling** (responses to "strongly agree/strongly disagree" questions), **semantic differential** (5- or 7-point scale with opposite pairs of descriptive words), and **projective techniques** (word association, picture interpretation, completion test, third person, or role playing).

The most commonly used survey research methods are: (*a*) personal interview, including in-home (door-to-door), in-medical-practice (hospital, clinic, long-term care facility, private office), in shopping center (mall intercept), in pharmacy (purchase intercept technique [PIT]), self-administered, or omnibus; (*b*) telephone survey (operator-or computer-assisted); (*c*) mail survey; (*d*) fax survey; (*e*) e-mail survey; (*f*) internet survey; and (*g*) focus group, including physical gathering, telephone conference, video conference, or Web conference. Various questionnaire designs include open-ended, fixed alternative, and mutually exclusive.

Observation

Observation is the systematic recording of customer behavior, events, or objects. Some of the observation research subjects are (*a*) physical actions, (*b*) verbal/expressive behavior, (*c*) temporal patterns, and (*d*) spatial relations. The methodologies employed are broadcasting cameras, web-casting cameras, mechanical counters, infrared motion detectors, and human observers. A more elaborate observation method is using trained marketing research professionals (mystery shoppers) who approach research subjects and gather valuable information on their behavior and patterns by pretending to be naive customers.

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Consider the following example. A French OTC antihistaminic medication manufacturer has just implemented a massive pharmacist educational campaign expecting to influence their medication recommendations or specialist referrals to patients. Mystery shoppers are then used to randomly approach pharmacists across France and monitor their antihistamine recommendations to patients.

Observations can be conducted in (*a*) standard test markets (for example, metropolitan area retail pharmacies), (*b*) control (or laboratory) settings (for example, a conference room where ten invited prescribers are asked about their brand name preferences), or (*c*) in simulated test markets (for example, a shopping mall store temporarily converted into a nutritional supplements/healthy living store with the purpose of studying the interested buyers' behavior in detail).

Experimentation (Test Marketing)

Experimentation is often used by pharmaceutical marketers to test specific product characteristics or marketing campaign items in an effort to fine-tune their R&D or promotional activities in advance of the actual product launch. Common examples of such tests are prescribers' brand name or campaign testing, price elasticity, and patients' tastes and packaging testing.

Analyzing the Data Collected

Once the data collection phase has been completed, the data are entered into a suitable electronic database. Erroneous data are cleaned (*e.g.*, a questionnaire's entry of a subject's age as 156 corrected to 56 [editing]), certain variables are coded for easy statistical comparisons, (*e.g.*, 1 = strong preference, 2 = moderate, and so on), and, finally, various statistical tests are utilized for their analysis.

Creating a Situational Model Based on the Data

The systematic collection and analysis of marketing research data eventually leads to the creation of a detailed situational model describing customers' attitudes and behaviors. Such research-backed, overall-picture models are extremely valuable tools for marketing decision making. Classic pharmaceutical industry examples of such models include the prescribing-decision process maps, patient purchasing decision trees that show information and disease treatment model trees that show information from patient symptomatology to diagnosis to treatment, as well as long-term follow up.

Evaluating the Model and Deciding on the Optimal Marketing Strategy

The final step in the marketing research process is the evaluation of the situational model by an interdisciplinary team of company experts, ranging from R&D to upper

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management, marketing, sales, manufacturing, advertising, and others working in functional teams toward the improvement of the product's competitive advantage.

A potential risk among giant pharmaceutical industry players is the lack of knowledge-sharing among these cross-functional teams, with the resulting break in communication and vast amounts of useful marketing research information remaining underutilized for large periods of time. Therefore, it is of paramount importance that each organization constantly work on improving the collection, archiving, and dissemination of marketing information so that all levels are fed with valuable information and made capable of contributing to the overall, long-term capability and viability of the company.

SUMMARY

- Marketing research involves several risks, and this is especially evident in the sensitive field of pharmaceuticals intended for human use.
- The pharmaceutical industry's information needs are diverse and constantly expanding.
- In their evaluations, these professionals often rely on an associated system called a *decision support system*, that is, a computer-based application that offers the opportunity to incorporate market histories, product life cycles, and future forecasts in a comprehensive *marketing scenario playing*.
- A commonly employed method used in marketing research problem definition is *exploratory research*.
- A survey of the whole group is called a *census*—such as the general population census of various national statistical agencies around the world.
- Observation is the systematic recording of customer behavior, events, or objects.
- Experimentation is often used by pharmaceutical marketers to test specific product characteristics or marketing campaign items in an effort to fine-tune their R&D or promotional activities in advance of the actual product launch.

REVIEW QUESTIONS

1. Discuss the marketing information system.
2. Discuss the process and methodology of marketing research.

FURTHER READINGS

- Belford, L. 1994. The changing role of market research. *Medical Marketing & Media* 29: 50–53.
- Goldstein, D. K., and M. H. Zack. 1989. The impact of marketing information supply on product managers: An organizational information processing perspective. *Office, Technology and People* A: 313–336.

UNIT III: MARKET SEGMENTATION

NOTES

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- know the markets segment.
- describe the benefit of markets segment.
- explain the demographic variable.
- know the traditional segmentation of markets.

3.1 INTRODUCTION

Market segmentation is about describing and dividing people. Imagine you can find all of the people who could potentially benefit from your product and you ushered them all into a giant room. Once in the giant room, you could divide them up into different groups depending on some set of characteristics. Well, metaphorically speaking, that's what market segmentation does. It seeks to identify the people who may have want or need for your product, then divides them into groups so that we may serve them more efficiently and profitably. Before describing the process of market segmentation and issues involved with that process, we should begin with some basic terminology in order to avoid confusion later.

We begin with the term "market." To professionals in other business disciplines, the word market often refers to a place where business of some kind takes place: *i.e.*, a supermarket, flea market, or stock market. To marketers, the term market means something else. In our discipline, markets are people, plain and simple. But to be in a particular market, people must meet two qualifications. First, they must share some common want or need; and second, they must possess the ability to satisfy that need.

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The term market is a very general term; to be useful in our discussion of segmentation, we must make the term more specific. Therefore, consider a second important term, "product market." Product markets are simply people with a want or need for the benefits offered by products in a particular product category, and the ability to satisfy those wants or needs. In the following section, we'll address in some detail what a product category is. For now, simply assume it's a group of related products. So, when we refer to the "blue jeans market," we do not mean the stores that sell blue jeans. Instead, we refer to the people who have a want or need for the benefits offered by blue jeans and the ability to satisfy that need.

Now, common sense tells us that many types of people have wants or needs for the benefits offered by blue jeans. Some people, perhaps young people, wear blue jeans because they seek to project a particular image or because they seek to be like (or different from) other groups of people. Other groups may desire blue jeans because of their durability. These people may be blue collar workers who need jeans for jobs in construction, agriculture, manufacturing, etc. Based on this reasoning, a third important term comes to mind: "market segment." Market segments are subgroups of the product market who share characteristics other than their need for the product category.

Finally, a given blue jeans manufacturer or retailer may examine the different segments who have a want or a need for blue jeans and decide to direct their resources to serving some or all of those groups. The market segments that a company decides to serve with their marketing efforts are referred to as "target markets."

3.2 WHY SEGMENT MARKETS?

Bear in mind that just because a firm identifies a particular segment does not mean they must select that segment as a target. The firm may find any number of reasons why a segment may not hold the potential to be worth the effort and resources to target with marketing efforts. For example, the firm may decide that a certain segment is too small to be worth the effort; the resulting sales from that segment would not justify the resources to pursue them. Or the firm may feel that members of a segment desire a certain set of benefits that the firm is not adept enough a delivering. Or it could be that an identified segment happens to be fiercely loyal to a competitive brand, and winning them away may be too costly or impractical.

Whatever the reason, firms often decide to overlook groups of people when selecting target markets. These decisions are meant to increase the efficiency with which a firm can serve its customers as well as the profitability of serving them. By excluding groups of people who are less likely to buy a firm's brand, the firm has additional resources to focus on groups with the greatest potential to become customers. Indeed, segmentation is so effective at helping businesses more wisely spend their resources that some economists consider segmentation to the be the single most valuable tool marketing has to offer the economy and our society.

3.3 MAJOR SEGMENTATION DECISIONS

To follow is a detailed discussion of the major decisions necessary for segmenting markets, as well as rationale and issues associated with each.

Product Category Decision

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What is a product category? Defining is a product category is a somewhat subjective decision. No "official list" exists for placing products in a particular category. This decision is made by marketers to suit a particular competitive situation. Moreover, it's a decision that can be changed as circumstances change. Indeed, the product category decision simply provides a starting point for a series of other decisions to follow. That said, a product category is simply a group of products that, on some level, provide similar sets of benefits.

Deciding on what level to group products into categories is the central issue in the product category decision. Product categories may be defined along some continuum of levels that vary by specificity. Rossiter and Percy (1997) suggest that marketers begin the process of defining a product category with what they call the "basic" category level. The basic level of a product category is the level that a child ordinarily learns as he or she learns to group similar objects together. For example, typical children may learn planes, computers, or soda pop as groups. For our purposes, however, marketers should define the basic product category level in a way consistent with how he or she believes the target audience would.

From the basic level, product categories may be superordinated (made more abstract or general) or subordinated (made more specific). So, soda pop may be superordinated into "drinks" or it maybe subordinated into colas. The notion of superordinating and subordinating product categories from a basic starting point illustrates the hierarchical and subjective nature of product categories.

The Importance of the Product Category Decision

The main reason why product category decisions are so important is that they help marketers define their competition. Before continuing this line of thinking, we should consider exactly what competition is. One view holds that competition is any substitute means of attaining the same benefit. By this definition, competition isn't static or fixed, but can vary depending on what benefits customers seek. Competition occurs when two or more products attempt to win over a common group of customers who are seeking a shared set of benefits offered by both products. Defining a product category helps marketers select the products they intend to position their product against in its quest to win over that group of customers.

An important point about competition bears mentioning. Firm A's decision to compete against Firm B does not imply that Firm B must respond to Firm A's competitive threat. Therefore, the product category decision helps you decide who you're going to compete against; it does not automatically decide who's going to compete against you.

The illustration in Figure 3.1 uses Taco Bell to show how the relevant set of competitors may change depending on how a product category is defined. Depending on how Taco Bell defines itself with respect to product category, the set of relevant competitors may change drastically. For example, a product category definition of "fast-food restaurant" (a basic level description in this example) pits Taco Bell against some or all of these competitors. Indeed, that's pretty much what Taco Bell did with its "Think Outside the Bun" campaign. It squared off against giants such as McDonalds and Burger King. As an aside, this example provides an opportunity to emphasize the complexity of mapping the landscape

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of a particular product category by illustrating that more than one basic level can exist. Although product categories may be simply thought of as a single basic level mapping up and down, the truth is often more complicated than that. Therefore, when you define product categories along the lines described here, use whatever conceptualization works best for you. The methods we discuss are simply to help you think systematically as you approach what are often ill-defined marketing problems.

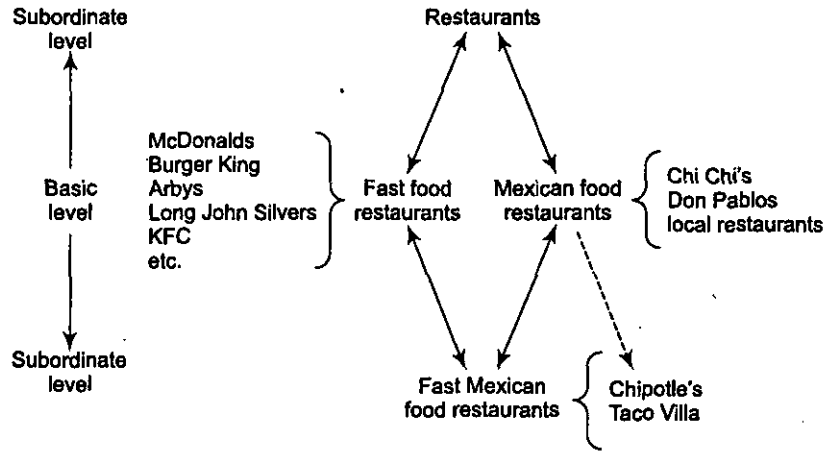

Fig. 3.1 Competition Definition within Product Categories: Taco Bell Illustration

Generally speaking, few firms actually select all people in a product market to target as potential customers. In fact, the circumstances under which this would be a wise decision are fairly limited. Most companies examine the people in a particular product market, divide them into segments and then select one or several (but not all) segments to be targets. Thus, describing segments in ways that are both sensible and reasonable becomes critical to many firms.

In the following section, I describe a model of segmentation that incorporates the variables most commonly used by marketers to describe people and in so doing hopefully provide you with an analytical and procedural tool that will prove useful to you when segmenting markets. The main purpose of the model is to bring a systematic sense of order to the often ad hoc and often even chaotic process of market segmentation.

Market Subgroup Decisions

In the somewhat contrived example offered at the beginning of these notes, I asked you to imagine inviting all of the people who might have need for a product into a giant room, and then begin the process of dividing them into subgroups, or segments. The obvious question at this point is on what basis do we divide them? In other words, what characteristics should we use to define what segment to assign a person? In addition, you may also wonder how to go about dividing the people into segments. How do you start?

Is there a process that helps assure that the segments you define make sense for the product you're trying to promote and segment? In the sections that follow, we'll examine both these sets of questions. First, we'll look at variables that marketers commonly use to describe people when segmenting markets. Second, we'll look at a process that can help you get started with the sometimes daunting task of simply thinking up segments useful for the product at hand.

3.4 TRADITIONAL SEGMENTATION BASES

Over the years, marketers have used a set of variables to do just that. These so-called "bases of segmentation" help describe groups of people in ways useful for explaining and predicting their need for particular products. The bases of segmentation fall into four categories: desired benefits, demographic variables, psychographic variables, and geographic variables. No doubt marketers in some industries have discovered other variables that also help to segment markets, however, these four are very common to virtually all consumer product markets. Therefore, let's examine each in terms of their use in segmenting markets.

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3.5 DESIRED BENEFITS

The word benefit is a word whose definition we all feel we know until we're asked to define it. Some students have defined the term to mean "what you get" from a product. I like this definition in the sense that it implies some gain on the part consumers as a result of using the product. With this in mind, I define benefit to mean the positive consequences that result from purchasing or using a product.

People buy benefits. That is, they buy products because they believe that doing so will produce something positive for them. Additionally, not everyone who buys a particular product seeks the same benefit from it. Moreover, many different kinds of people may buy a particular product seeking the same benefit. Taken together, these facts suggest two things. First, understanding why people buy products is critical to effectively promoting the product. Second, understanding why people buy can be terribly complicated.

One way to gain some insights into why people buy is to recognize the different types of benefits, and also understand that not all benefits were created equal. To better understand what benefits people seek from a given purchase, we can categorize benefits along two different dimensions. First, consider how a person experiences a particular benefit. For example, many positive consequences of product use or consumption come from physical sensory perception. Other benefits arise from how products make us feel emotionally. These simple but important differences imply that benefits can be categorized according to whether they're functional or psychological.

Functional benefits: Positive consequences of use that are experienced directly, usually through one or more of the five senses. The definition contains the word usually because, like so many things, functional benefits do not always rely on the physical senses. For example, most people would classify saving money as a functional benefit; however, this benefit does not come about from a physical sensation.

Psychological benefits: Positive consequences of use that are experienced indirectly through mental or emotional processes. Second, for a given person or purchase occasion, some benefits are clearly more important than others. Developing a detailed and precise ranking of benefits - particularly for complex purchases - would be difficult if not impossible. However, a simple distinction on the basis of importance is not only simple, but can also give valuable insights into customer behaviors. Therefore, I suggest dividing benefits into only two categories based

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on their importance to a given purchase. First, some benefits may be the primary motivational factor behind why a purchase is being made in the first place. Second, certain desired benefits may shape brand preferences within a given set of purchase options. These distinctions imply the following:

Motivational benefits: Desired benefits central to solving a recognized problem. Motivational benefits are so-named because the desire for them "motivates" the individual to seek to acquire them.

Preferential benefits: Desired benefits for which an individual has a preference, but are secondary in importance to motivational benefits. Preferential benefits often lead customers to a given brand within a product category.

We can use this simple typology of benefits to develop what I term benefit profiles, which are simply groups or bundles of benefits that seem to compliment each other and seem to make sense together as a group.

3.6 DEMOGRAPHIC VARIABLES

Demographic variables describe the physical and social characteristics of a population. Demographic variables include such physical characteristics as sex, ethnicity, and age. Social demographic characteristics include income, occupation, religion, and education.

In consumer market segmentation, demographic variables are probably used more than any other types of variables. Two reasons explain much of their popularity for this purpose. First, vast amounts of demographic data exist on the population of the United States and other nations with well-developed economies. In the United States, for example, the federal government as well as all fifty state governments collect, analyze, tabulate and annually publish thousands of documents pertaining to the demographic composition of the population. Much of this research is available free of charge. Indeed, much is available online. I encourage you to look up Web sites from the Census Bureau, the Bureau of Labor Statistics, the Department of Education, or the Department of Commerce. The agencies provide a treasure of information; all you have to do is look. Likewise, state government agencies also make available similar reports.

Beyond availability, a second reason marketers find demographic data so practical for segmenting markets is that people with similar demographic characteristics Figure 3.2 similar marketplace behavior. Consider some simple examples. The elderly spend much more on health care than younger groups of people. Likewise, the elderly spend much less on housing than other groups. College educated people are much more likely to own computers, have Internet access, and shop online than people without college degrees. Certainly you can think of other examples.

When using demographic variables, there may be a temptation to oversimplify or overgeneralize. There can be a fine line between using demographic variables to accurately describe consumers' marketplace behaviors and simply drawing stereotypes. For example, consider a demographic description of a "typical" University of Dayton student. Most are Catholic, white, between the ages of 18 and 22 and come from middle to upper-middle class backgrounds. However, to marketers, this description paints a rather thin picture, for within these

demographic parameters lie a multitude of tastes, styles, purchasing patterns, and motivations for buying.

That's why the most useful descriptions don't rely only on demographic variables; instead they utilize extensive combinations of variables in order to draw the most precise picture of consumer segments possible. To follow are brief discussions of other variables used to segment markets. Afterwards, I will introduce a simple model that describes the interrelationships between these variables and which implies a process that brings a somewhat systematic approach to dividing product markets into segments.

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3.7 GEOGRAPHIC VARIABLES

Beyond the extensive array of demographic variables, marketers avail themselves to other types of variables when describing consumer market segments. One obvious choice is where consumers live. Marketers generally consider two dimensions of consumer geographics. First marketers may describe consumers in terms of their actual locations. That is, we want to where our current or potential consumers live. This information can be in varying degrees of specificity. For example, in some instances knowing about current or potential customers in the Midwest or the South is sufficient, while in others we want this information at the state or city level. In fact, in these days of direct marketing, marketers also want to know the locations of customers right down to their street addresses. Second, marketers consider consumer geographics in terms of location characteristics. Marketers want to know whether their current and potential customers live in urban areas or rural areas, or whether they live along the coast, in the mountains or in the desert.

3.8 PSYCHOGRAPHIC VARIABLES

Marketers have increasingly relied on psychographic variables for market segmentation since the early 1980s. While demographic variables describe people in physical or social terms, psychographic variables describe them in terms of their lifestyles. Although virtually everyone understands what the word lifestyle means, in order to be useful for market segmentation, the term must have a specific definition. In this case, marketers define lifestyle as the combination of essentially three consumer characteristics: activities, interests and opinions. Indeed, in marketing vernacular, these three characteristics are often referred to as the "aio" or "lifestyle" variables. Thus, to marketers, consumers' lifestyles are comprised of what they do (activities), what they like (interests), and what they think (opinions). You can use the aio variables to help assemble description of the lifestyles of consumers in various market segments as those segments are identified.

The quick acceptance and use of psychographic segmentation led to several marketing research firms creating and selling "ready made" lifestyle profiling schemes. Among the most popular and widely used has been the Values and Lifestyles (VALS) system of psychographic profiling first developed by the Stanford Research Institute (SRI). Over time, SRI refined their original system into what is now known as VALS2.

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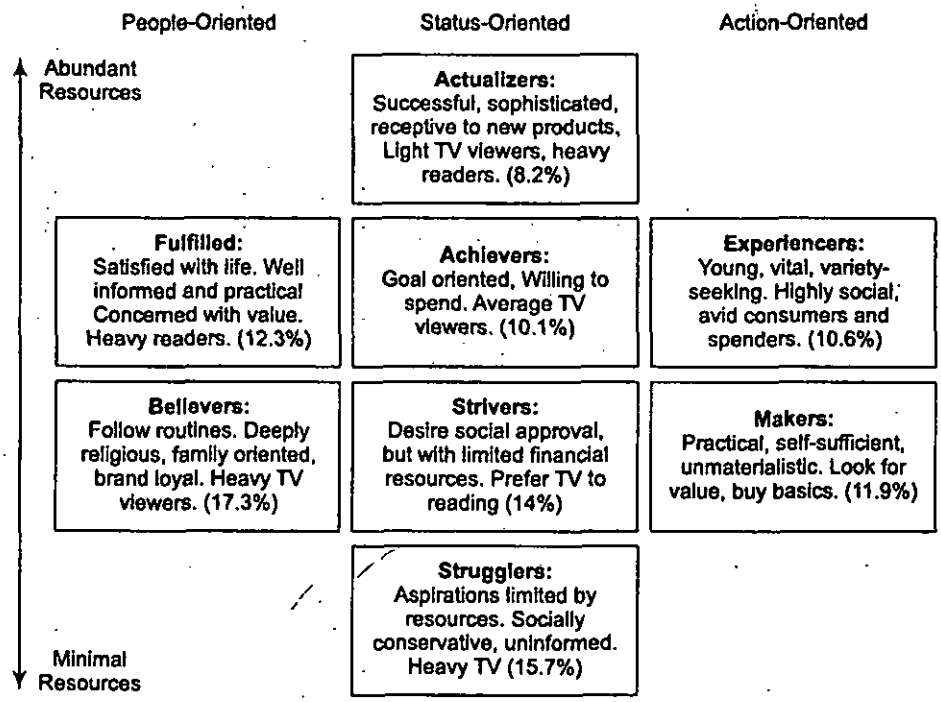

Fig. 3.2 VALS2 lifestyles classifications

The VALS2 system of lifestyle profiling divides consumers into eight different groups, which are arranged on a grid. The scheme arranges groups horizontally as either (1) people oriented: consumers guided by their views of how the world ought to be, (2) status-oriented: consumers guided by the actions and opinions of others, and (3) action-oriented: consumers who are guided by a desire for activity and variety. The groups are arranged vertically according to their financial resources – usually incomes. Figure 3.2 shows the arrangement of the VALS2 lifestyle categories.

Because SRI provides consulting services to clients using the VALS2 system, additional details as well as the questionnaire SRI uses to categorize individual consumers cannot be provided here. However, even these somewhat sparse descriptions offer a useful tool for beginning your own psychographic descriptions. When developing these profiles yourself, be sure to focus on activities, interests, and opinions; they offer a constructive and widely recognized means of describing consumer lifestyles.

3.9 DESCRIBING SEGMENTS USING THE TRADITIONAL SEGMENTATION BASES

As you considered the four segmentation bases, it may have occurred to you that they are interrelated. Each of the bases affects or is affected by the others. To the extent that this is true, we can use these interrelationships to suggest a process for dividing product markets into market segments, and describing those segments.

Figure 3.3 presents a model showing how the bases relate to one another. The model suggests that an individual's lifestyle is determined by their demographic and geographic characteristics. Given our definition of lifestyle as activities, interests, and opinions, these relationships make sense. Demographic factors such as age and income, for example, exert great influence on one's activities. The elderly

do not participate in strenuous sports to the same degree that teenagers do; the wealthy are far more likely to travel extensively than those making less money. Likewise, geographics also influence lifestyles. Interests in opera or art stand a much greater chance of being pursued in urban or suburban areas than in rural locations. Pursuing certain recreational activities such as surfing or skiing depend on location.

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One caveat regarding geographic variables must be noted. For many products, geography is irrelevant to market segmentation. Indeed, this may be true of the majority of familiar consumer products. Thus, you should not attempt to force geographic variables into a market segmentation if using them makes no sense.

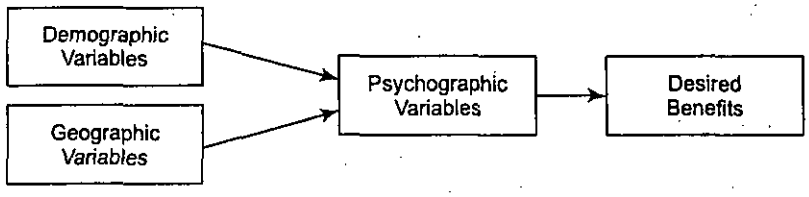

Fig. 3.3 Interrelationships of segmentation bases

The model in Figure 3.4 also suggests that people's lifestyles largely determine the benefits they seek from the products they buy. Recall that earlier we defined benefits as the positive consequences of purchasing or using a product. A single product may Market provide many different benefits – or positive consequences. People's activities, interests, and opinions strongly influence what positive consequences they seek from a product.

Before developing an example of the interrelationships, we should examine how they assist us in describing subgroups of a product market. When marketers segment markets, the output of that process is a written description of each segment identified within the product market. Depending on the circumstances, each written description or summary may range from a few sentences to a few pages. These summaries describe the segments in terms of the bases of segmentation.

Besides providing insights into the interrelationships of the segmentation bases, the model in Figure 3.4 actually suggests a fairly straightforward process that can assist you in the difficult task of simply thinking up relevant segments within your product market. Before I describe that process, however, let me offer a couple of suggestions. One, think of as many possible groups with a potential need for your product as possible, without regard to whether they'd make good targets for your marketing efforts. You can decide later whether or not a segment should be pursued; for now your task should be as complete a description of the segments in the product market as you can. And two, don't overlook psychological benefits. All too often, we focus on the immediate and more clear-cut functional benefits with less consideration for the more complicated but often more effective psychological benefits. This can be a critical mistake for many products because very often people buy based on how a product makes them feel rather than simply what it does for them.

Given the relationships described in Figure 3.4, the most effective place to start thinking of and describing market segments is with product benefits. Begin to list and group the benefits your product offers. In cases where the product is in development or subject to modification, you can include benefits your product might offer once fully developed and brought to market. Indeed, describing market segments often provides valuable input into what a new or improved product ultimately looks like.

Once you've listed a few benefits, start thinking about the kinds of lifestyles (activities, interests and opinions) that would lead people to desire those benefits.

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Then start matching demographic – and in some cases geographic – descriptions to those lifestyles. In other words, work your way backwards through the model in Figure 3.4. Once you've settled on a demographic/geographic description of a group of people, spend time refining the benefits that you began with. Optimally, you'll wind up with something like a benefit profile discussed earlier.

As you go through this process, other sets of benefits may occur to you. As they do, modify the lifestyle descriptions to match the new benefits, then think of demographic and geographic characteristics that correspond to the lifestyle.

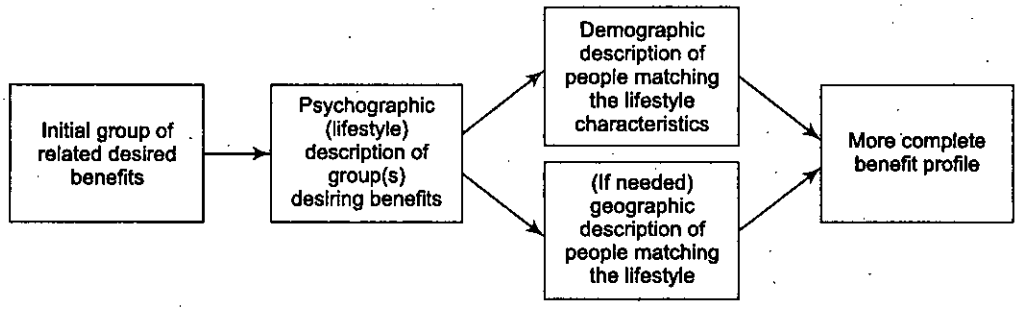

Fig. 3.4 Process for describing market segments

SUMMARY

- An important point about competition bears mentioning. Firm A's decision to compete against firm B does not imply that firm B must respond to firm A's competitive threat.
- Over the years, marketers have used a set of variables to do just that. These so-called "base of segmentation" help describe groups of people in ways useful for explaining and predicting their need for particular products.
- The word benefit is a word whose definition we all feel we know until we're asked to define it. Some students have defined the term to mean "what you get" from a product.

REVIEW QUESTIONS

1. What do you understand by market segment?
2. Discuss major segmentation decisions.
3. Discuss the traditional segmentation bases.

FURTHER READINGS

- Ashton B. W., A. H. Johnson, and G. S. Stacey. 1994. Monitoring science and technology for competitive advantage. Competitive Intelligence Review 5: 5-16.
- Bryant, P. J., T. F. Krol, and J. C. Coleman. 1994. Scientific competitive intelligence: A tool for R & D decision making. Competitive Intelligence Review 5: 48-50.
- Cleland, D. I., and W. R. King. 1975. Competitive business intelligence systems. Business Horizons Dec: 19—28.

UNIT IV: SITUATIONAL ANALYSIS

NOTES

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe the techniques of situation analysis.
- explain the resources of analysis.
- know the industry attractiveness analysis.
- explain the competitive intelligence.

4.1 INTRODUCTION

As the human genome is mapped, the number of potential new targets for pharmaceutical intervention will increase as much as twentyfold—increasing the hope for effective new treatments. PhRMA, 1998

When discussing strategy, the first question a marketing strategist has to address is "where are we now?" This is done by looking thoroughly at the internal and external situations, so that a realistic assessment of the company's current situation is reached. The process of studying the internal and external environments is called *situational analysis*. As Table 4.1 shows, a variety of informational sources are used as input to the situational analysis process. Several analytic techniques, such as perceptual mapping and comparative scaling, are then used to arrive at the desired outputs in the form of key success factors (KSFs), strategy, and tactics.

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4.2 TYPES OF SITUATIONAL ANALYSIS

Figure 4.1 shows a detailed listing of the different analysis types used by a marketing strategist. External analysis covers the different existing environmental forces (macroenvironment), the therapeutic area market segments, customers, and competitors (microenvironment), as well as the prevailing macro- and microenvironmental trends, and the industry's KSFs. The elements of the macroenvironment were covered, the segment analysis components (markets and customers) were covered, the competitor and KSF analysis are discussed later in this unit, while the trends forecasting. This unit focuses on the elements of internal analysis, as well as competitor analysis. Before discussing these components, some of the commonly used situational analysis techniques are shown.

Table 4.1 Situational Analysis Inputs and Outputs

Input	Situational Analysis	Output
Product information	Perceptual mapping	KSFs
Company information	Comparative scaling	Strategy
Market information	Performance analysis	Tactics
Competitor information	SWOT	
Environmental information		

4.3 SITUATIONAL ANALYSIS TECHNIQUES

Two of the most commonly used techniques for assessing customer attitudes toward the organization's product offerings are the perception mapping and comparative product scaling techniques. Figure 4.8 (page 90) depicts a two-dimensional perception map used to evaluate customer attitudes and perceptions on competitive products. The two axes used may refer to a variety of product core and augmented variables, such as perceived efficacy, safety, tolerability, ease of use, price, accompanying information, speed of action, taste, and so on. When competitor products are mapped this way, marketers can identify unmet customer needs, for example, identifying an area void of products with both high efficacy and good price, which can then be communicated to their R&D departments for future development.

Comparative product scaling is another technique that can plot customer perceptions of multiple products on a variety of measures, as seen in Figure 4.2. This visual technique can also show significant gaps in a company's product performance compared to those of the competitors, and, ultimately, can lead to the development of a new and improved therapeutic solution.

Finally, situational analysis techniques can focus independently on the external and internal environment, or combine a mixture of both. SWOT analysis is a primary example of an analytic tool employing data from both environments. Another such tool is the situational grid, which compares a company's position (strong [S], moderate [M], weak [W]) to the industry attractiveness within the given market segment (see Table 4.2).

4.4 RESOURCE ANALYSIS

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A company's resources may be *assets* (tangible and intangible) or *internal capabilities*. Tangible resources include land, research and manufacturing facilities, office space, and financial assets. These items can be measured precisely by using long-existing accounting methods. Intangible assets are harder to evaluate; therefore, proper quantitative measures must be thought out carefully. Examples of essential intangible components that are difficult to analyze include the number and economic value of patents and trademarks, human capital, brand equity, and the level of organizational knowledge, as well as the company's image and innovation. Nevertheless, as common business knowledge proclaims, "What is hard to measure is hard to manage," so various ways of analyzing and evaluating intangible assets have been created. Other experts have even suggested the use of enterprise-wide "scorecards," namely, the creation of a corporate grading scale, allowing frequent comparison of actual performance to the required standards. For an excellent effort in describing such a scorecard, see *The BalancedScorecard,* by Kaplan and Norton (1996). Table 4.3 identifies some quantitative parameters that are used for analyzing intangible assets in the pharmaceutical industry.

Table 4.2 Situational Analysis Grid

Factor	Market Attractiveness	S	M	W	Company Position	S	M	W
Market Extent								
Growth								
Customers								
Potential								
Product Product Life Cycle (PLC) stage								
Complexity								
Added value								
Patents								
Differentiation								
Competition Concentration								
Capacity								
Vertical integration								
Price sensitivity								
Profitability Profit								
Cost structure								
Gross margin								

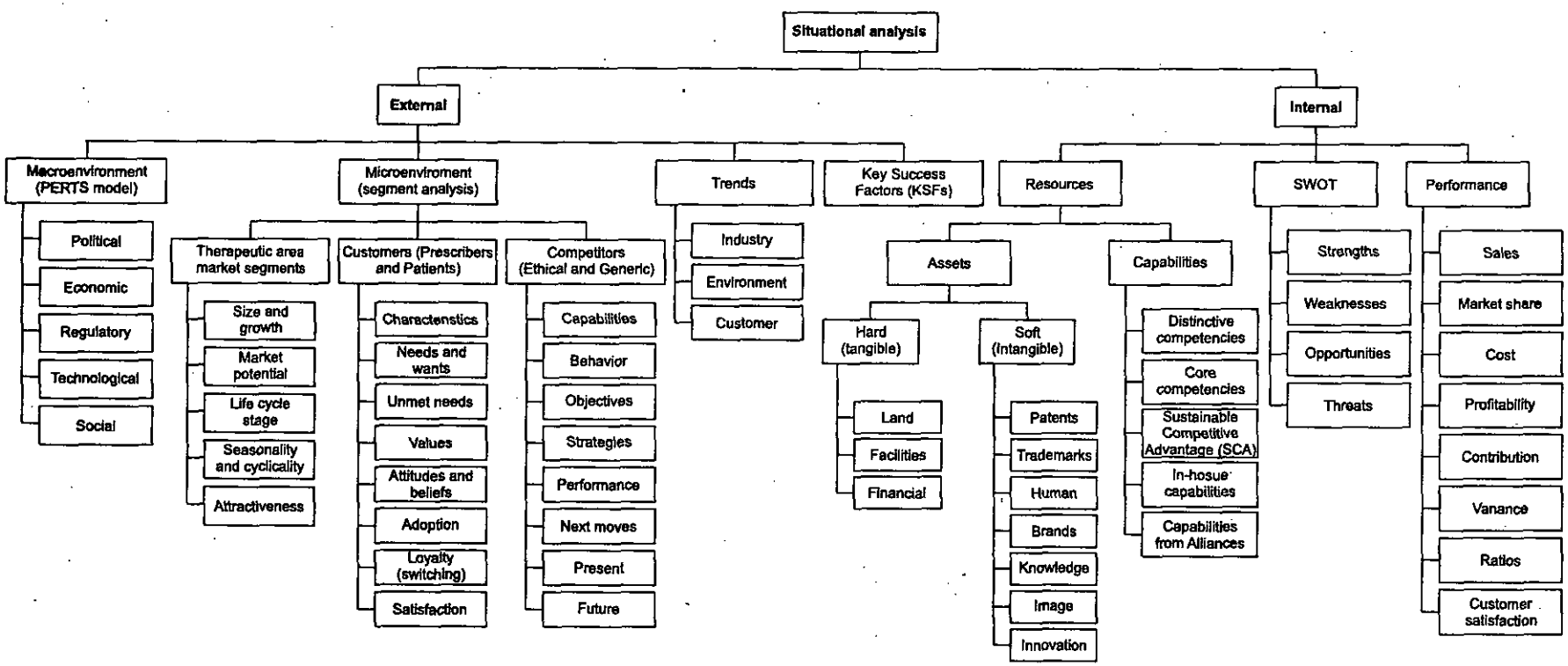

Fig. 4.1 Types of situational analysis

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Personnel Structure								
Working condition								
Quality								
Other Factors Team spirit								
Government support								

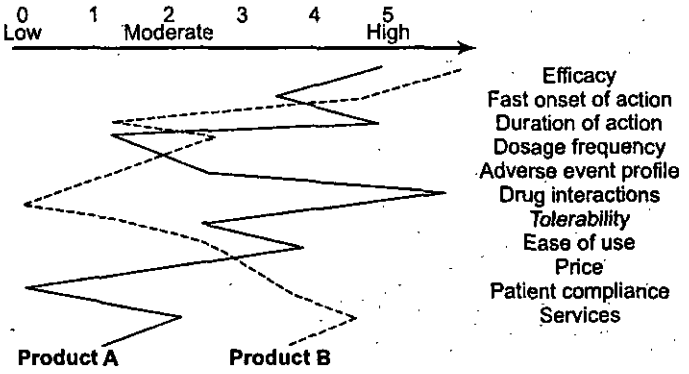

Fig. 4.2 Comparative product scaling

4.5 SWOT ANALYSIS

SWOT stands for the strengths of, weaknesses of, opportunities for, and threats to an organization. Strengths and weaknesses are internal, while opportunities and threats are external. Figure 4.3 shows the four elements of SWOT analysis.

As previously mentioned, SWOT analysis uses both internal and external analysis tools. In product SWOT analysis, a given product is compared to its direct competitors within the given market segment. In company SWOT analysis, the whole organization is compared to its organizational competitors. Both are useful tools, and are widely used by pharmaceutical marketers designing a company's strategy.

As Figure 4.4 shows, a set of seven essential steps are needed to conduct a focused SWOT analysis. First, the relevant market segments are identified (product strength

Table 4.3 Intangible Asset Measures in the Pharmaceutical Industry

Human Capital	Brand Equity	Knowledge	Image	Innovation
Employee articles	Awareness	Intranet infrastructure	Perception maps	Patents submitted
Employee books	Acceptability	Information Technology (IT) investment	Stock price	Patents awarded
Employee speeches	Loyalty Preference	In-house databases	Press quotes	Patent royalties

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Employee courses	Price premium	Library holdings	Industry ranking	Products in pipeline
No. of MDs/PhDs	Unit volume	Inquiries answered	Customer loyalty	INDs submitted
Trade association seats		Knowledge professionals	Job applications	NDAs submitted
Employee awards			Employee satisfaction	NDAs awarded
				Product launches
				New product sales
				R&D investment
				Clinical trials running
				NCEs introduced
				Innovation awards
				Enabling technologies

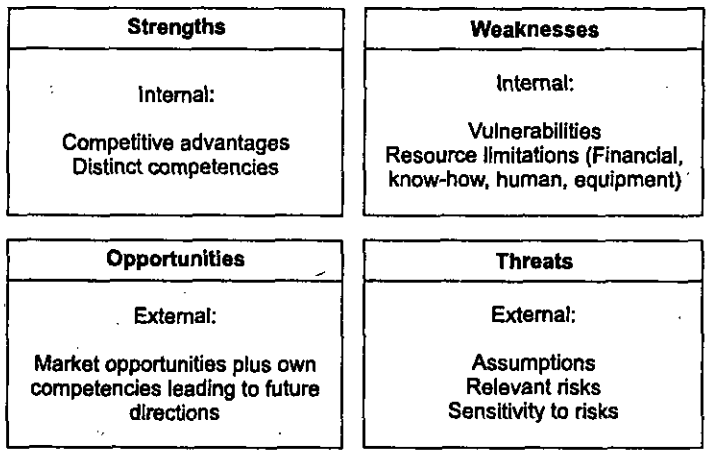

Fig. 4.3 SWOT analysis

or formulation versus similar competitor offerings, or full product line versus competing product lines, or even the whole company versus its industry competitors). Second, extensive relevant information is collected and filtered so that only data applicable to the SWOT analysis become the focus. Third, a number of important factors are listed and then placed under the four quadrants of the SWOT analysis grid. Attention needs to be given to clearly distinguish strengths (internal) from opportunities (external), or strengths from potential weaknesses (*e.g.*, a wide product line is a strength; that it requires extensive resources and may dilute a company's product priorities is a weakness). Next, each of the four identified lists is reduced to a maximum of ten important issues, because the essence of a SWOT analysis is the identification of KSFs and action points. Additionally, a long list may defeat the purpose of the analysis. Finally, the chosen items are prioritized. At this point they are ready to be converted into strategy and tactics by the marketing strategists. Table 4.4 shows a SWOT analysis grid that can be used for several market segments.

Table 4.4 SWOT Analysis Grid

Strengths and Weaknesses (SW)	*Weight*	*Segment A*		*Segment B*		*Segment C*	
		Rating	*Score*	*Rating*	*Score*	*Rating*	*Score*
Total	100						
Opportunities and Threats (OT)	*Weight*	*Segment A*		*Segment B*		*Segment C*	
		Rating	*Score*	*Rating*	*Score*	*Rating*	*Score*
Total	100						

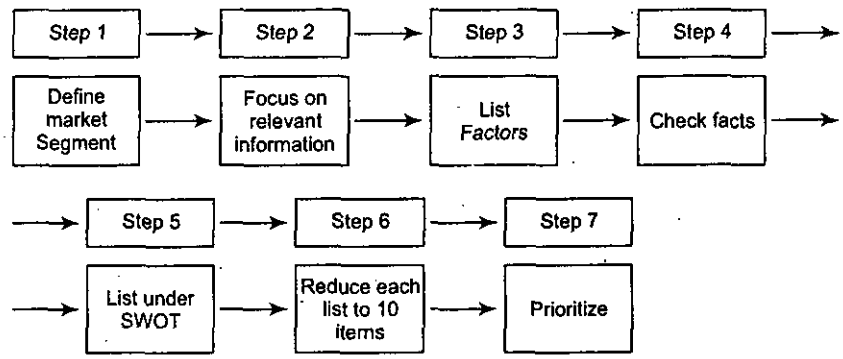

Fig. 4.4 SWOT analysis steps

What are some of the specific SWOT analysis parameters most commonly used by pharmaceutical marketing specialists? Table 4.5 provides an exhaustive list of strengths, weaknesses, opportunities, and threats applicable to the pharmaceutical industry.

4.6 PERFORMANCE ANALYSIS

A company's performance analysis may focus on several of the organization's functions and processes. While some of these functions are listed in Figure 4.5, they are presented in depth.

4.7 DERIVING THE KEY SUCCESS FACTORS

Following the completion of the internal situation analysis, including SWOT analysis, an organization is in a better position to evaluate which elements are required for future market success and how the company can fulfill each of the prerequisites. These critical elements are called the key success factors (KSFs), some of which can be found in Table 4.6.

4.8 COMPETITOR ANALYSIS

Barring the slim chances of working for a government monopoly or for a company performing so well that it has completely forced all its competitors out of the market, the vast majority of marketing professionals working in free enterprise economies operate in increasingly complex and competitive environments. Under

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these circumstances, current and potential competitors, as well as supply chain players who accumulate bargaining power, exert a continuous, competitive pressure on the organization, which threatens its market share and even its very existence. The exact nature of these competitive forces surrounding an organization is further.

Operating under these conditions, today's marketers are forced to continuously monitor the competition, study its strengths and weaknesses, understand its driving motives, and attempt to identify its future moves. The process of studying and evaluating competitors' capabilities and motivations is collectively called *competitor analysis*, and it plays a very critical part in influencing the design of the organizations strategy. Figure 4.6 shows the three levels of competitor analysis, namely, the customer level, the strategic group level, and the potential level.

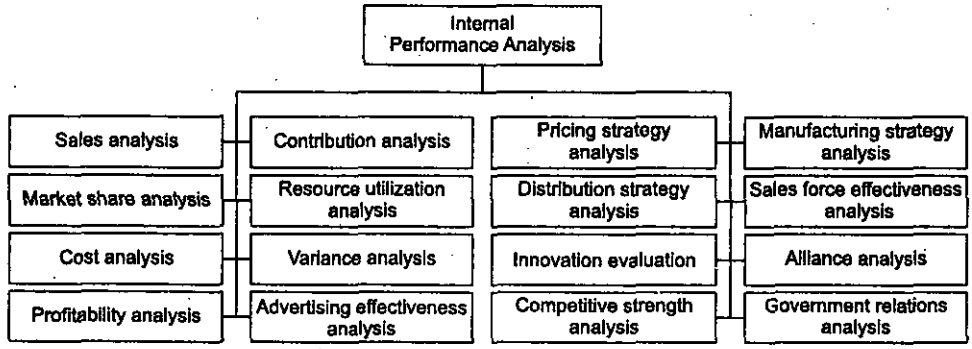

Fig. 4.5 Internal performance analysis tools

Table 4.5 Common Examples of Pharmaceutical SWOT Factors

S (Internal)	W (Internal)	O (External)	T (External)
Efficacy	Weak R&D portfolio	Unmet therapeutic need	Industry rivalry
Safety	Lack of financial resources	Market size	Competitive mergers
Tolerability	Lack of human resources	Market growth	Competitive technological breakthroughs
No interactions	Old manufacturing technology	Low market fragmentation	Eroding market share
Long half-time	Lack of technology	High pricing environment	Regulatory delays
Innovative class	Know- how	Pricing received	Late market entry
Crosses bodily barriers	Lack of disease expertise	Reimbursement received	New product launches
Patient-friendly dosage	Complex dosage scheme	Positive clinical results	Entry of generics
Patient-friendly formulation	Limited clinical data	Positive publicity	Patent expiration
Mixing during administration	Low acceptance of new drug	Disease treatment guidelines	Increased regulation
Fast onset of action	Low prescriber	Chronic treatment	Price reductions
No impurities			Price wars
Best clinical trial program			Negative publicity
			Low physician compliance

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Room temperature storage	awareness	possibilities	Low patient compliance
Large prescriber experience	Multiple product priorities	Changing world climate	Aggressive competitive campaign
Large patient experience	Limited premarketing effort	Changing epidemiology	Competitive clinical trial program
Good patient compliance		Changing politics	Loss of tender business
Cost-effective		Sales seasonality	Government bias to
High gross margin		Population aging	*Competitor*
Long patent protection		Higher disease awareness	
Therapeutic category leadership		*Patient education*	
Large therapeutic category portfolio		Patient advocacy groups	
Superior segment knowledge		Societal attitude changes vs. disease	
Specialized sales force		Discovery of new diagnostic	
Good company image		Globalization	
Good contact with prescribers		Reduction of trade barriers	
Contact with authorities		Comarketing	
Global reach		*Tender business*	
Disease management program		Many new products vs. old one	
Pharmacoeconomic expertise		Competitor withdrawals	
		Research/Quality award	
		Governmental anti-generic barriers	

Important: Always choose the ten most important factors to list. A larger SWOT list defeats its purpose.

Table 4.6 Key Success Factors (KSFs)

KSF	Description	Impact	Action Required
Product A in new segment	Introduce A to GPs	High	Segment data, focus group, teasing campaign.
Product B launch	*Launch B in Egyptian market*	Low	OLs, symposium, campaign.
Product C formulations	Nasal formulation is needed	High	Collect testimonials, contact R&D.

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Product D diversification	D is entering decline	Moderate	Identify partner, negotiate, diversify.
Promotional campaign	Repositioning campaign needed	Moderate	Choose agency, brief, plan, test, create.
Clinical trials	OL experience	High	Include local center, get approval.
Marketing information	Competitor has surprised us	High	Collect competitive data, set up system.
Sales force	Sales call frequency is low	High	Recruit, train, motivate, and align representatives.

To summarize, performing competitor analysis is important because it: (1) determines a competitor's corporate strategy; (2) defines corporate R&D activity; (3) monitors competitor's product introductions; (4) analyzes the market for a product introduction; (5) provides financial information about a corporation; (6) profiles competitor's key executives; and (7) determines industry's KSFs.

Essential Steps of Analysis

Let us now focus on the steps of analysis involved in studying the competition. Figure 4.7 shows that competitor analysis is conducted in six consequent steps. The first step is identifying all current and potential competitors. Potential competitors are organizations that have not yet entered the marketplace but their continuous expansion or diversification may lead them into our competitive arena. The second step is a behavioral analysis of the identified competitors; that is, identifying how these players behave in the marketplace, how they launch their products, how they respond to our moves, what response they have toward new government regulations, and so on. The third step is the detailed study of the competitors' performances over a prolonged historic period, which includes looking at their annual unit and value sales, their growth and market shares, their new product introductions, their pricing and promotional strategies, and so on.

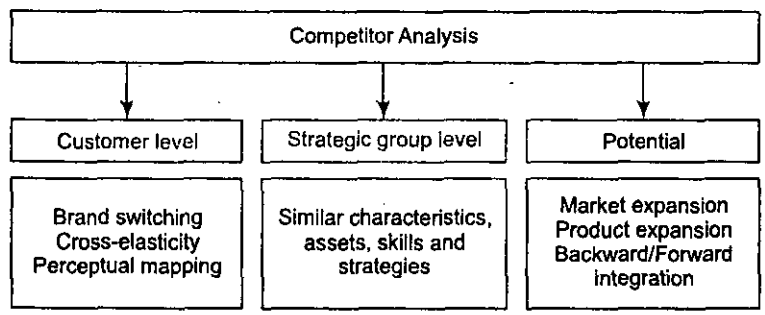

Fig. 4.6 Competitor analysis levels

The data gathered until this point are used to understand the competitors' motivation; that is, what drives their strategic intent, what are their long-term objectives and goals, or what kind of vision do they hold for their organizations. Then, based on this information, an industry attractiveness analysis is performed. This allows our company to evaluate the future potential of this market segment and to determine whether our organization can sustain its competitive advantage given the existing competitive environment. Eventually, the major characteristics

of our operating market segment, its influencing factors, and, especially, the key factors required for long-term success within this sector become apparent. Therefore, the industry's KSFs are mapped and then incorporated into the organization's own strategy for long-term viability and growth.

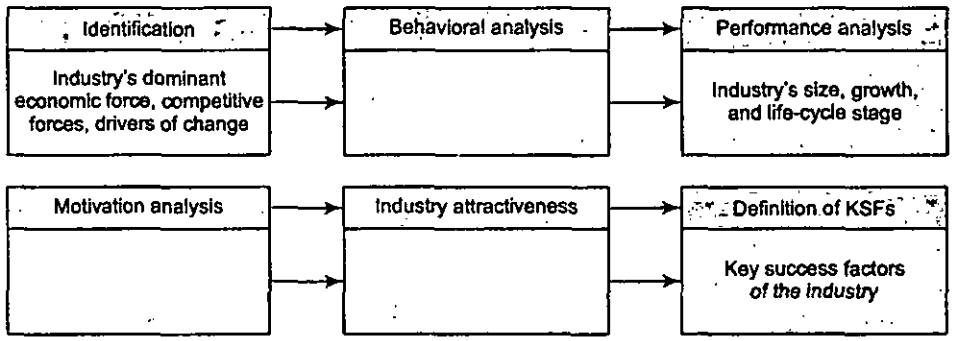

Fig. 4.7 Essential steps in competitor analysis

Competitor Identification

The identification of competitors includes current and potential market players. Pharmaceutical marketers looking for their competitors should be broad-minded in their searches. Obvious sources of information would, of course, be their customers (prescribers and patients), their sales and marketing colleagues (who can discuss which of their current needs are satisfied by another player), or a new competitor who has just visited their medical practice to announce an impending new product launch. Nevertheless, pharmaceutical products belonging to a certain therapeutic class may face present and future competition from products belonging to another therapeutic class, or even from nonmedicinal remedy manufacturers who have convinced a portion of disease sufferers on their product s merits. Thus, the identification and listing of all potential alternatives may provide a marketer with good leads when trying to identify his or her competitors.

In addition to identifying therapeutic alternatives as a source of competitors, a marketer can use customer purchases or customer and executive opinions as well (see Figure 4.8).

Competitor Strategic Grouping

After identifying a variety of industry competitors, a marketer evaluates these players in-depth, individually, as mentioned earlier. This analysis will often reveal great similarities among certain competitors, allowing the clustering of these players in a *"strategic group"* that is, grouping competitors who share similar resources, capabilities, and strategies, and exhibit similar market behaviors and performances. Within every industry, there are usu-ally sectors than can be regarded as distinct groups. Companies within a strategic group have similar strategies and positions. Furthermore, mobility barriers inhibit a firms movement from one strategic group to another. Examples of mobility barriers include large capital investments made at an early industry stage or the progressive specialization of human resources or manufacturing. Table 4.7 shows some of the factors that may influence the creation of a distinct strategic group within the pharmaceutical industry.

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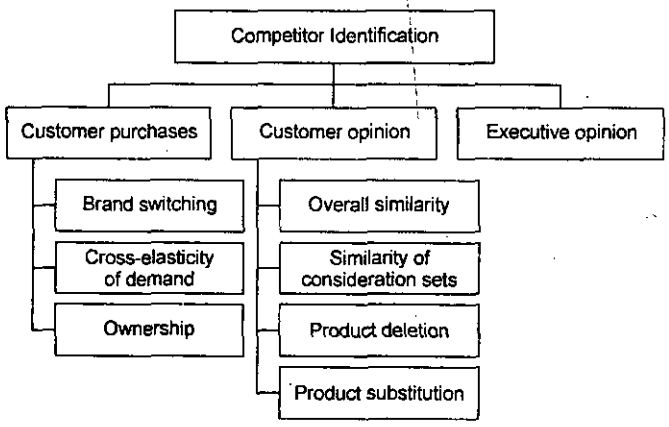

Fig. 4.8 Competitor identification methods

Figure 4.9 shows an example of a strategic group map, which is a tool often used in competitor identification. This two-dimensional map illustrates clusters of competitors in two distinct areas with similar characteristics.

Members of the same strategic group often behave in a concerted and predictable way to environmental changes because of their similar characteristics, motivations, and strategies. Segment analysis of strategic groups helps identify these reactions by focusing on the following parameters: (*a*) relative size, (*b*) growth rate, (*c*) internal rivalry, (*d*) KSFs, and (*e*) future strategic moves.

Competitor Behavioral Analysis

Behavioral analysis of competitors uses historically related data regarding their distinct behaviors and reactions in the marketplace. Some items to look for when studying a competitor's behavioral pattern include product launch pattern, moves to integrate backward and forward, responses to our moves, responses to a changing health care setting, responses to government changing regulations, pricing strategy changes, discounts and offers, tender bidding practices, restructuring, reorganization, sales force details during new product launches, product life cycle management, legal actions against competitive threats, moves into the generics field, globalization initiatives, and public relations in times of crises.

Table 4.7 Factors Defining Pharmaceutical Industry's Strategic Groups

#	Factor	Parameters
1.	Therapeutic category specialization	Biotech vs. nonbiotech, category size and maturity, company leadership
2.	Innovation	Patents, NCEs submitted/approved, new product revenue, technologies
3.	Globalization	Foreign markets, subsidiaries vs. agents, local leadership
4.	Integration	R&D to market, outsourcing, backward (raw materials), forward (distribution)
5.	Branding	Number, customer recognition, competitive position, promotion
6.	Push & Pull	Prescribers only vs. DTC, promotion
7.	Channels	Multiple- vs. single-channel, full- vs. short-line, contract types, mail, Web
8.	Product quality	Batch recalls, customer complaints, customer service, company image

9.	Value-added	Dosage strength and formulation, packaging, usage instructions
10.	Costing	Integrated vs. outsourced, productivity, cost vs. quality-minded
11.	Services offered	Information, education, services, community relations, patient assistance
12.	Pricing	High vs. low, penetration vs. skimming, relationship to value, image
13.	Relationship with parent company	Subsidiary, joint venture, representative, agent, exclusive vs. nonexclusive

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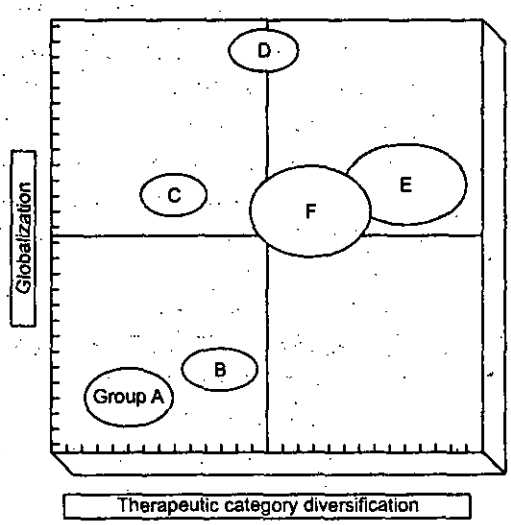

Fig. 4.9 Strategic grouping by therapeutic category: diversification and globalization

Competitor Performance Analysis

Performance analysis follows the competitors behavioral analysis. This is another critical step because it provides essential insights into the relationship between a competitor's behaviors and strategies and their results. This indicates necessary adjustments to our own strategies, too. A performance analysis can utilize long-term historical data about the competitor—usually the last five years in most industry analyses. Table 4.8 shows a competition analysis grid focusing on various performance indicators. Performance measurements can be expressed in absolute terms, such as annual unit sales volumes or rankings, using customer-based evaluations of arbitrary scales or weighted rankings, the last rankings weighted versus their impact on industry's performance, or utilizing visual mappings of performance measurements on two-dimensional (see Figure 4.10) or multidimensional maps.

Table 4.8 Competition Analysis Grid

Brand Name	Competitor	Sales Volume	Growth	Market Share	Profitability	Quality	Service	Customer Satisfaction	Image	Product Innovation	Service Innovation
1.											
2.											
3.											
4.											
5.											
6.	Our Firm										

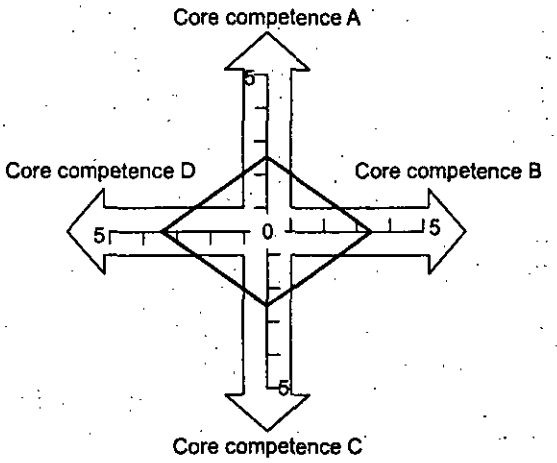

Fig. 4.10 Multi-factorial competitor analysis grid

Competitive Benchmarking

The process of benchmarking uses industry-related standards of performance, or *"benchmarks"* for measuring a company's performance level against that of other competitors, preferably that industry's leaders. The collection of extensive competitor information makes competitor benchmarking possible because it collects extensive information about competitors, allows constant monitoring of business performance, evaluates our own company compared to the top performing competitors, focuses on KSFs, and ranks competitors in relation to the KSFs.

Strategic benchmarking focuses on three elements (shown in Figure 4.11). Customers, competitors, and the industry's required competencies are thoroughly studied. The resulting standards of performance are put through rigorous tests of expert opinions, consultant inputs, and in-house specialist evaluations. The outcome is a list of commonly accepted benchmarks that can be used for comparing the company's performance with its direct competitors or the industry's leaders. Furthermore, benchmarks are constantly reevaluated and adjusted as new technologies or new industry entrants continually raise the standards of excellence.

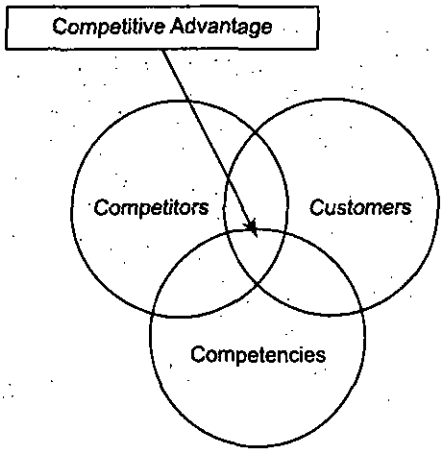

Fig. 4.11 Competitive advantage focus

Competitor Motivation Analysis

The purpose of this part of competitor analysis is to unravel the competitors' inner motivations, objectives, goals, and intents. By looking at these parameters,

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a marketer can gain insights into where the industry is moving and what the prevailing marketing environment conditions will be in the future, and then adjust the company's direction as needed. Motivation analysis requires input from industry specialists—internal or external—that study the long histories of competitor behaviors and performances in search of what drove these parameters in the past. Based on this knowledge, the long-term objectives of the competitors can be ascertained, making the company's own competitive defense strategy more focused and efficacious. Table 4.9 shows a competition analysis grid that focuses on a competitor's intents and goals within different geographical boundaries.

4.9 INDUSTRY ATTRACTIVENESS ANALYSIS

Armed with the knowledge of competitor behavior, performance, and motivation, pharmaceutical marketers evaluate the industry attractiveness within the given market segment. The results of this analysis serve as useful indicators of the need for further exploiting this segment or looking within other portfolio sections for larger and more sustained opportunities. An industry attractiveness analysis is also a tool of portfolio analysis.

4.10 DEFINITION OF INDUSTRY'S KSFS

The results of competitor analysis help define those elements necessary for success within the given industry segment. These elements may be tangible or intangible, human or material. Whatever their nature, they are critical to the industry's success within the segment, and are called *key success factors* or *KSFs*. Obviously, the ability to surpass competitors in KSFs leads to competitive advantage. KSFs commonly identified within the pharmaceutical industry include product innovation, marketing expertise, therapeutic area knowledge, sales force effectiveness, first-to-market products, enabling technologies, globalization, focus on core competencies, financial resources, product reimbursement, hospital formulary product inclusion, and information technology expertise. Table 4.10 shows a competitor analysis model applicable to the pharmaceutical industry.

Table 4.9 Competitor Analysis by Regional and Functional Area

Competitor:							
Analyst:					**Date:**		
Sources of information:							
Region	**Strategic Intent**	**Competitive Position**	**Market Share Objective**	**Competitive Intensity**	**Competitive Strategy**	**KSFs**	**Next Moves**
Local							
Regional							
National							
Economic Groups							
Geographical Groups							
Global							

4.11 COMPETITIVE INTELLIGENCE

Competitive intelligence is related to, but not synonymous with, competitor information. Competitive intelligence is analyzed information on the competitors. It includes extensive collection, archiving and storage, and evaluation of relevant information by experts. This leads to the creation of valuable intelligence that can profoundly influence busi-ness decisions. The term "intelligence" has acquired a negative connotation, due to its extensive use in the military or spying sector and subsequent popularization by the movie industry. However, the collection and analysis of competitor information also has been one of the cornerstones of business success across every industrial sector. Therefore, the skilled practice of collecting and analyzing competitor information in all business ventures, including the pharmaceutical markets, is necessary. Sources of competitive intelligence are illustrated in Figure 4.12. Contrary to public belief, such intelligence is not all legally protected and hidden away from competitors' eyes. Instead, as Figure 4.13 shows, most of it is easily accessible and should be the focus of well organized and equipped corporate competitive intelligence-gathering departments.

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Table 4.10 A Pharmaceutical Competitor Analysis Example

Date: **Analyst:** **Grading:** **Aspect:**	**Parameters**	**1 = Lowest, 5 = Average, 10 = Highest** **Product A**	**Product B**	**Product C**
Customer need	Efficacy	5	7	9
	Safety	8	8	7
	Price	6	8	10
Industry competition	Sales volume	5	5	8
	Sales revenue	8	8	9
	Profit	9	6	8
	Market share	6	6	8
Product line competition	Strategy	7	7	5
	Differentiation	8	5	9
	Customer image	7	7	8
	Product Price	8	8	7
	Promotion strategy	8	6	7
	Distribution strategy	6	7	5
Organizational competition	Marketing structure	7	8	6
	Marketing strengths	8	8	9
	Sales force structure	8	7	7
	Sales force strengths	6	8	8

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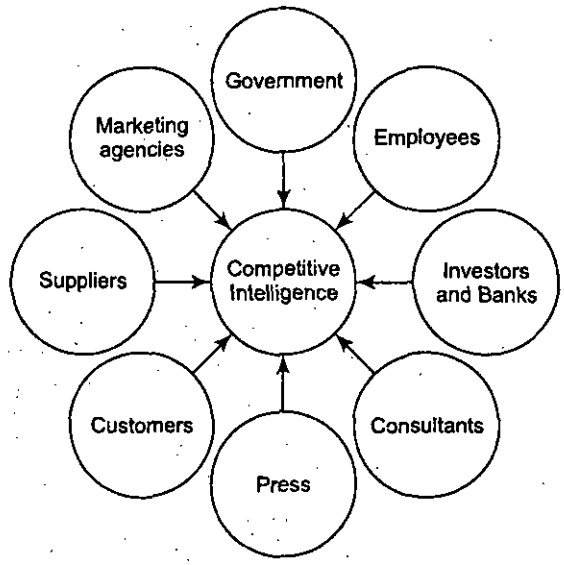

Fig. 4.12 Competitive intelligence sources

Most experts would agree that competitive intelligence could come from far and diverse sources. These sources are not always in printed form, but may be in the public domain such as word-of-mouth information (not rumors), television news, Web sites, and so on. The gathering of such information requires specialized professional teams, comprising of competitive intelligence experts, analysts, librarians, and project leaders. These professionals should possess a number of key abilities, such as creativity, experience, persistence, good listening and communication skills, and strategic ability, as well as good ethics.

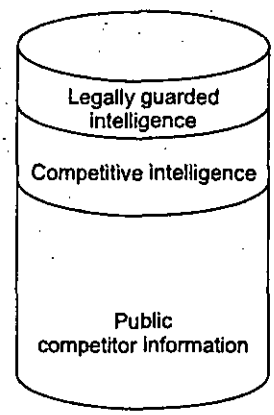

Fig. 4.13 Types of competitor information

Table 4.11 lists some competitive intelligence sources. In addition, the following list summarizes some well-known, commercially available pharmaceutical market intelligence databases.

Table 4.11 Competitive Intelligence Sources

Employees/ Investors	Promotional Activities	Customers	Trade	Public Domain	Government
Business articles	Advertising	Health care	Banks	Antitrust litigation	Diagnosis expert committees
Books	Annual reports	professionals	Commercial databases	Articles	Ethical committees
Calls for grants	Corporate material	Pharmacists	Consultants	Backward engineering	Financial disclosures
Congress presentations	Manuals	Prescribers	Financial analysts	Books	Formulary committees
Courses taught	Promotional material	Purchasing agents	Licenses	Case studies	Government contract administration
Employee meetings	Publicity		Marketing agencies	Courses	Health department
Employee unions	Quarterly reports		Newswires	Directories	Insurance agencies
Executive interviews	Recruitment ads		Stock/bond issues	Environmental groups	Pricing authorities
Job candidates	Technical papers		Subcontractors	Grant proposals	Registration authorities
Medical literature			Suppliers	Internet	Reimbursement funds
Personnel changes			Trade association	Lawsuits	State committees
R&D scientists			Trade press	Local newspapers	
Sales force				Patents/ literature	
Shareholder meetings				Press	
Speeches				Security and Exchange	
				Reports	
				Seminars	
				Who's Who directories	

Market Intelligence

BCC Market Research

Business 6c Industry

Datamonitor

EPSICOM Pharmaceutical & Medical Companies

FIND/SVP Market Research Reports

Freedonia Market Research

Frost & Sullivan Market Intelligence

Industry Express

PROMT

Trade & Industry Database

IMSWorld Drug Market-Countries

IMSWorld Pharmaceutical Company Profiles

IMSWorld Product Launches

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Intellectual Property

Current Drugs Fast-Alert

IMSWorld Patents International

Regulatory

Diogenes FDA Regulatory Updates

FDC Reports

Federal Register

NDA Pipeline: New Drugs

Industry News

ADIS InPharma

ADIS PharmacoEconomics & Outcomes

Business Dateline

Drug News & Perspectives

Health News Daily

PharmaBiomed Business Journals

Marketletter Database

Pharmaceutical and Healthcare Industry News Index

Pharmaceutical News Index

Pharma Marketing Service

Research and Development

ADIS LMS Drug Alerts

R&D Insight

BIOSIS Previews

CA SEARCH: Chemical Abstracts

Derwent Drug File

Drug Registry File

Drug Data Report

Drugs of the Future

EMBASE

EMBASE Alerts

IMSWorld R&D Focus

International Pharmaceutical Abstracts

MEDLINE

Pharmaprojects

SUMMARY

- Two of the most commonly used techniques for assessing customer attitudes toward the organization's product offerings are the perception mapping and comparative product scaling techniques.

- SWOT stands for the strengths of, weaknesses of, opportunities for, and threats to an organization. Strengths and weaknesses are internal, while opportunities and threats are external.
- The identification of competitors includes current and potential market players. Pharmaceutical marketers looking for their competitors should be broad-minded in their searches.
- The process of benchmarking uses industry-related standards of performance, or *"benchmarks"* for measuring a company's performance level against that of other competitors, preferably that industry's leaders.
- *Competitive intelligence* is related to, but not synonymous with, competitor information. Competitive intelligence is analyzed information on the competitors.

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REVIEW QUESTIONS

1. Discuss different types of situational analysis.
2. Discuss SWOT analysis.
3. Discuss different key success factors.

FURTHER READINGS

- Ashton B. W., A. H. Johnson, and G. S. Stacey. 1994. Monitoring science and technology for competitive advantage. *Competitive Intelligence Review* 5: 5—16.
- Bryant, P. J., T. F. Krol, and J. C. Coleman. 1994. Scientific competitive intelligence: A tool for R&D decision making. *Competitive Intelligence Review* 5: 48–50.
- Cleland, D. I., and W. R. King. 1975. Competitive business intelligence systems. *Business Horizons Dec:* 19—28.

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UNIT V: POSITION, TARGETING AND PROFILING

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- know what is the risk of research?
- describe the marketing information system.
- explain the process and methodology.
- know about the research of qualitative methods.

5.1 TARGET MARKETS

The second important part of the STP process is to determine which, if any, of the segments uncovered should be targeted and made the focus of a comprehensive marketing programme. Ultimately, managerial discretion and judgement determines which markets are selected and exploited and which others are ignored.

Kotler (1984) suggested that in order for market segmentation to be effective, all segments must be:

- *Distinct*—is each segment clearly different from other segments? If so, different marketing mixes, to use the traditional approach to marketing, will be necessary.
- *Accessible*—can buyers be reached through appropriate promotional programmes and distribution channels?
- *Measurable*—is the segment easy to identify and measure?
- *Profitable*—is the segment sufficiently large to provide a stream of constant future revenues and profits?

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This approach to the evaluation of market segments is often referred to by the DAMP acronym, making it easier to remember. Another approach to evaluating market segments uses a rating approach for different segment attractiveness factors, such as market growth, segment profitability, segment size, competitive intensity within the segment, and the cyclical nature of the industry (*e.g.*, whether or not the business is seasonal, *e.g.*, retailing, or dependent on government political cycles as some large-scale defence contracts are). Each of these segment attractiveness factors is rated on a scale of 0–10 and loosely categorized in the high, medium, or low columns, based on either set criteria, or subjective criteria, dependent on the availability of market and customer data and the approach adopted by the managers undertaking the segmentation programme.

Other examples of segment attractiveness factors might include segment stability (i.e. stability of the segment's needs over time), mission fit (*i.e.*, the extent to which dealing with a particular segment fits the mission of your company, perhaps for political or historical reasons), and a whole host of other possibilities. Once we have determined which segment attractiveness factors we intend to use, we can then weight the importance of each segment attractiveness factor and rate each segment on each factor using the classifications. Decisions need to be made about whether a single product is to be offered to a range of segments, whether a range of products should be offered to multiple segments or a single segment or whether one product should be offered to a single segment. Whatever the decision, a marketing strategy should be developed to meet the needs of the segment and reflect an organization's capability with respect to its competitive strategy and available resources.

A segmentation exercise will have been undertaken previously as part of the development of the marketing strategy. The marketing communications strategist will not necessarily need to repeat the exercise. However, work is often necessary to provide current information about such factors as perception, attitudes, volumes, intentions and usage, among others. It is the accessibility question that is paramount: how can the defined group be reached with suitable communications?

What is the media consumption pattern of the target audience? Where can they get access to our product and purchase it?

5.2 TARGETING APPROACHES

Once identified, the organization needs to select its approach to target marketing it is going to adopt. Four differing approaches can be considered. These include undifferentiated, differentiated, concentrated or focused, and customized target marketing approaches (see Figure 5.1).

In an **undifferentiated approach** there is no delineation between market segments, and instead the market is viewed as one mass market with one marketing strategy for the entire market. Although very expensive, this targeting approach is often selected in markets where there is limited segment differentiation. For example, the Olympics is marketed at a world market, or certain government services.

The UK postal service uses an undifferentiated marketing strategy, targeting everyone, although the Post Offices do differentiate between other products and services.

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A **differentiated targeting approach** recognizes that there are several market segments to target, each being attractive to the marketing organization. As such, to exploit market segments, a marketing strategy is developed for each segment. For example, Hewlett Packard has developed its product range and marketing strategy to target the following user segments of computing equipment: home officer users; small and medium businesses; large businesses; and health, education, and government departments. The clothing brand Levi's uses multiple marketing strategies to target the trendy/casual, the price shopper, the traditionalist, the utilitarian, and the mainstream clothing shopper. A disadvantage of this approach is the loss of economies of scale due to the resources required to meet the needs of many market segments.

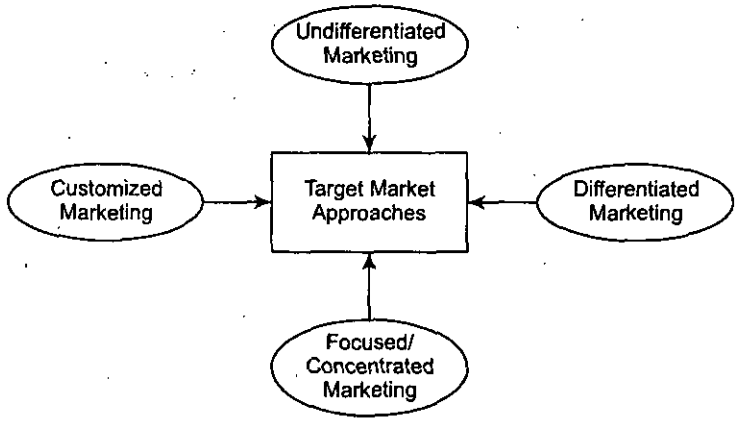

Fig. 5.1 Target marketing approaches

A concentrated or **niche-marketing strategy** recognizes that there are segments in the market, but implements a concentrated strategy by focusing on just a few market segments. This is often adopted by firms that either have limited resources by which to fund their marketing strategy, or are adopting a very exclusive strategy in the market. Jordan's the cereal company originally used this approach to target just consumers interested in organic food products. This approach is also used a lot by small to medium and micro-sized organizations, given their limited resources: the local electrician, for example, focusing on the residential market or the cement manufacturer who targets the building market.

The final approach is a **customized targeting strategy** in which a marketing strategy is developed for each customer as opposed to each market segment. This approach is more predominant in B2B markets (*e.g.*, marketing research or advertising services) or consumer markets with high-value highly customized products (*e.g.*, purchase of a custom-made car). For example, a manufacturer of industrial electronics for assembly lines might target and customize its product differently from Nissan, Unilever, and Levi's, given the differing requirements in assembly line processes for the manufacture of automobiles, foodstuffs, and clothing.

5.3 POSITIONING

Having segmented the market, determined the size and potential of market segments, and selected specific target markets, the third part of the STP process is to position a brand within the target market(s). **Positioning** is important because it is the means by which goods and services can be differentiated from one another and so give consumers a reason to buy. Positioning encompasses two fundamental

elements. The first concerns the physical attributes, the functionality and capability that a brand offers. For example, a car's engine specification, its design, and carbon emissions. The second positioning element concerns the way in which a brand is communicated and how consumers perceive the brand relative to other competing brands in the marketplace. This element of communication is vitally important as it is 'not what you do to a product, it is what you do to the mind of a prospect' (Ries and Trout, 1972) that determines how a brand is really positioned in a market.

Kotler (1997) brings these two elements together when he says that 'Positioning is the act of designing the company's offering and image so that they occupy a meaningful and distinct competitive position in the target customers' minds.' Positioning therefore is about a product's attributes and design, how the product is communicated, and the way these elements are fused together in the minds of customers. It is not just the physical nature of the product that is important for positioning, and it is not just communication that leads to successful positioning. Claims (through communication) that a shampoo will remove scurf and dandruff will be rejected if the product itself fails to deliver on these attributes. Positioning therefore is about how customers judge a product's value relative to competitors and its ability to deliver against the promises made.

5.4 THE POSITIONING CONCEPT

In order to develop a sustainable position it is important to understand the market in which the product is to compete and to understand the way in which competitor brands are competing. In other words, what is the nature of the competition in the market and what tangible and intangible attributes are customers looking for when buying these types of products? At a simple level, positioning takes place during the target market selection process. Strategic groups are the various clusters of brands that compete directly against each other. For example, in the car market, Ford, Toyota, and Mercedes each have brands that compete against each other in the high-end luxury car market. This strategic group consists of Jaguar, Lexus, and the S-Class respectively, amongst others. The specification and design of these cars are based on the attributes that customers in this segment deem to be important and are prepared to pay for. However, designing a car that includes key attributes alone is not sufficient. Successful positioning of each of these car brands is important in order that customers perceive how each brand is different and understand the value that each represents.

Key to this process is the identification of the attributes that are considered to be important. These attributes may be tangible (for example, the gearbox, transmission system, seating, and interior design) and intangible (for example, the reputation, prestige, and allure that a brand generates). By understanding what customers consider to be the ideal standard or level that each attribute needs to attain and how they rate the attributes of each brand in relation to the ideal level, and each other, it becomes possible to see how a brand's attributes can be adapted and communicated to become more competitive.

Through market research we can identify what factors (attributes) are the key drivers of a consumer's preference for a brand. For example, as shown in Figure 5.2, from a sample of 1,521 female teenagers that were surveyed it was identified that being trendy and stylish, having a good range of clothing, and a good brand reputation, were the most important factors for this target market when selecting a preferred brand of fashion retailer.

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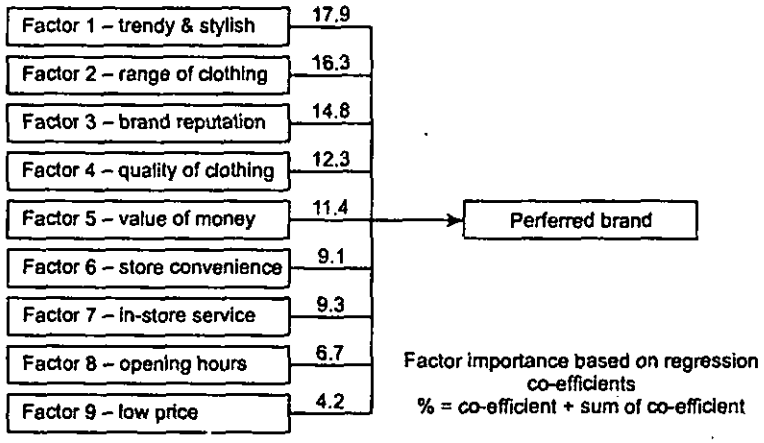

Fig. 5.2 Drivers of preferred brand of fashion retailer

Using this list of drivers we can further depict on what we call a perceptual map how the different competing brands of fashion retailers in the market are positioned according to these drivers.

Perceptual Mapping

Understanding the complexity associated with the different attributes and brands can be made easier by developing a visual representation of each market. These are known as perceptual maps and they are used to determine how various brands are perceived according to the key attributes that customers value. In addition, is it possible to determine and map how customers see an ideal brand, based on the key attributes, and from this see how far away a brand is from occupying the ideal position.

Perceptual mapping represents a geometric comparison of how competing products are perceived (Sinclair and Stalling, 1990). One thing to note is that the closer products/brands are clustered together on a perceptual map, the greater the competition. The further apart the positions, the greater the opportunity for new brands to enter the market, simply because the competition is less intense. For example, in fashion retailing there are numerous brands in the marketplace all competing with each other across differing core attributes, brand reputation, store presence, price, and clothing quality or trendy and stylish. To show how the differing brands might be positioned relative to each other using the attribute scores for each brand of fashion retailer we can measure and map the brand positioning for the respective brands. Figure 5.3 shows the positioning of a number of fashion retailers using the dimensions of price, store presence, and trendy and stylish.

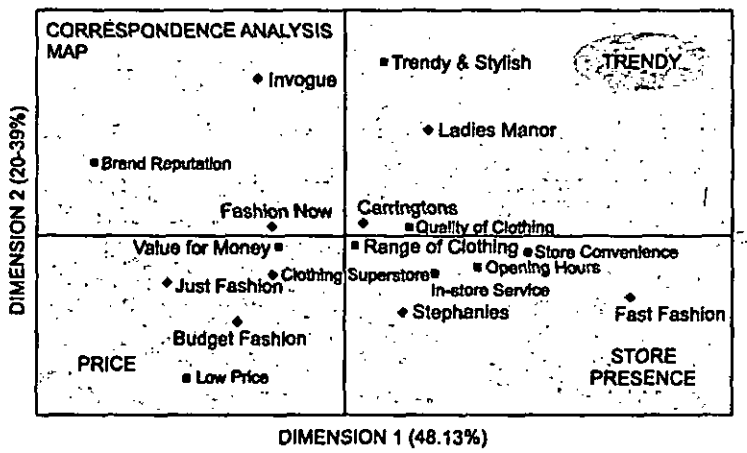

Fig. 5.3 Market brand positioning: all brands

Given the distance between the differing brands on the perceptual map, Figure 5.4 shows us that there is a relatively high level of differentiation in brand positioning between the retailing brands Invogue and Fast Fashion. However, in contrast there is a low level of differentiation between Budget Fashion and Just Fashion. Given the distance of the differing brands from each attribute, Figure 8.4 also shows us that Invogue and Ladies Manor are more closely associated with the attribute of trendy and stylish; Budget Fashion, Just Fashion, and the Clothing Superstore with the attributes of price and value for money; and Stephanie's and Fast Fashion with the attributes of in-store service, opening hours, and store convenience.

Determining attribute importance and mapping the brands across these attributes, we can discover how our brand and competing brands are perceived in the marketplace. It is very rare that using just two attributes adequately reflects the diversity of opinion and preferences of the target market. Using multidimensional scaling techniques it is possible to add further attributes and create a composite picture of the main segments that constitute a market. Perceptual mapping can provide significant insight into how a market operates. For example, it provides marketers with an insight into how their brands are perceived and it also provides a view about how their competitors' brands are perceived. In addition to this substitute products can be uncovered, based on their closeness to each other (Day *et al.*, 1979). All of the data reveal strengths and weaknesses that in turn can assist strategic decisions about how to differentiate on the attributes that matter to customers and how to compete more effectively in the target market.

5.5 POSITIONING STRATEGIES

Understanding how brands are positioned provides important inputs not only to the way a brand performs but also to the marketing communications used to support a brand. Through communications, and especially advertising, information can be conveyed about each attribute and in doing so adjust the perceptions customers have of the brand. For example, Carrington's might want to reposition the perception the market has of its brand from range and quality of clothing to be more trendy and stylish; Fashion Now reposition more on in-store service and convenience; and Budget Fashion and Just Fashion might want to maintain their current positioning of low price, affordable, but also good value for money.

Following any necessary adjustments to the product, marketing communications would emphasize these attributes and hope to further differentiate the fashion retailers across their brands' perceived positioning. Marketing communications can be used in one of two main ways to position brands, namely to position a brand either functionally or expressively (symbolically). Functionally positioned brands emphasize the features and benefits, whilst expressive brands emphasize the ego, social, and hedonic satisfactions that a brand can bring. Both approaches make a promise: with regard to, for example, haircare, a promise to deliver cleaner, shinier, and healthier hair (functional) or hair that we are confident to wear because we want to be seen and admired, or because it is important that we feel more self-assured (expressive). Within each of these two main approaches there are numerous sub-strategies, some of which are presented in Table 5.1.

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5.6 REPOSITIONING STRATEGIES

Markets change and some change quickly. Technology, customer tastes, and competitors' new products are some of the reasons for these changes. If the position adopted by a brand is strong, if it was the first to claim the position and the position is being continually reinforced with clear, simple messages, then there may be little need to alter the position originally adopted. However, most marketers need to be alert and be prepared to reposition their brands as the relative positions occupied by brands, in the minds of customers, will be challenged and shifted around on a frequent basis. However, repositioning is difficult to accomplish, often because of the entrenched perceptions and attitudes held by buyers towards brands and the vast (media) resources required to make the changes.

Repositioning is essentially a task that revolves around the product and the way it is communicated. There are four main ways to approach repositioning a product. The choice of approach depends on each individual situation facing a brand. In some cases the brand needs to be adapted before relaunch.

- Change the tangible attributes and then communicate the new product to the same market. Regent Inns repositioned themselves in 2007, ahead of the public place smoking restrictions. The primary positioning on bar and restaurant brands such as Walkabout, Jongleurs, and Old Orleans moved to food, while lighting and seating changes were made to change the atmosphere and ambience. The brands' logos were refreshed and then communicated to the target audience through a mix of media (Godsell, 2007).
- Change the way a product is communicated to the original market. When the World Golf Village in Florida was first developed, the retail, commercial, residential resort failed to attract sufficient purchasers. The scheme was repositioned using communications to convey not a 'golf only development' message but one that emphasized a well-balanced, developing premium community.
- Change the target market and deliver the same product. On some occasions repositioning can be achieved through marketing communications alone, but targeted at a new market. For example, Lucozade was repositioned from a drink for sickly children, a niche market with limited volume sales growth, to an energy drink for busy, active, and sports-oriented people. This was achieved through heavyweight advertising campaigns.
- Change both the product (attributes) and the target market. For example, the Indian company Dabur needed to develop but had to reposition itself as an FMCG company, rather than retain its earlier position as an Ayurvedic medicine manufacturer. To do this it had to develop new product offerings and new packaging, it dropped the umbrella branding strategy, and adopted an individual branding approach. This was then communicated, using leading Bollywood actors and sports stars, to reach their various new markets.

Table 5.1 Product positioning Strategies

Position	Strategy	Explanation
Functional	Product feature	The brand is positioned on the basis of the attributes, features, or benefits that the brand has relative to the competition. For example, Volvos are safe; Weetabix contains all the vitamins needed each day; and Red Bull provided energy.

	Price quality	Price can be a strong communicator of quality, typified by the lager Stella Artois, which is positioned as 'reassuringly expensive'. A high price denotes high quality, just as a low price can deceive buyers into thinking a product to be of low quality and poor value.
	Use	By informing when or how a product can be used, it is possible to create a position in the minds of the buyers. For example, Kellogg's have tried to reposition their products to be consumed throughout the day not just at breakfast. After Eight chocolate mints clearly indicate when they should be eaten.
Expressive	User	By identifying the target user, messages can be communicated clearly to the right audience. So, Flora margarine was for men, and then it became 'for all the family'. Some hotels position themselves as places for weekend breaks, as conference centres.
	Benefit	Positions can also be established by proclaiming the benefits that usage confers on those that consume. Top Shop position themselves on the benefits users gain by being seen to be fashionable. The benefit of using Sensodyne toothpaste is that it enables users to drink hot and cold beverages without the pain associated with sensitive teeth and gums.
	Heritage	Heritage and tradition are sometimes used to symbolize quality, experience, and knowledge. Kronenbourg 1664, 'Established since 1803', and the use of coats of arms by many universities to represent depth of experience are designed to convey trust, permanence, and longevity.

5.7 MARKETING STRATEGY: HOW TO PROFILE YOUR CUSTOMERS

Knowing one's customer is a prerequisite for successful marketing practice. Customer profiling is the collection valuable information about customers which will help in better targeting and marketing strategies. Although every marketer knows about the importance of customer profiling, it is surprising to see how little effort has been taken in this regard.

The main reason cited by marketers, especially those dealing with FMCG and consumer durable products, for this lack of customer profiling is the sheer size of the customer base. For a mass marketer, profiling the large segment of consumers is not viable economic proposition. The problem starts when marketers see their customers as a large segment and not seeing them as a collection of individuals. It is true that a mass marketer cannot profile individuals but treating the entire segment as one without understanding individual profiles can make decision making less effective.

Profiling helps the marketer in better targeting, better communication and also provides a thorough understanding about his/her buying behavior. The more information a marketer has about the customer, more efficient will be his marketing activities. Customer profiling can be done at an individual level or at segment level. In practice, most of the mass marketers and B2C marketers tend to profile

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customers at the segment level and the B2B marketers focus on individual profiling. B2C marketers find it difficult to profile individual customers because of the large number of customers.

Customer profiling starts with the identification of target customers. Before profiling, marketers should have clarity about their prospective customer. This is a critical step for start-ups and those businesses that are entering new markets. The critical question that a marketer should address at this stage is "Who is our customer? " Many businesses tend to view this question narrowly. It is important for marketers to understand the different customer- roles in a buying situation. For example, in the case of a Television purchase, every member of the family will have a role to play in the whole purchase process.

According to Professor Philip Kotler, there are five customer roles in a purchase process:

- **Initiator:** The person who first suggest the idea of buying a product.
- **Influencer:** One who influences the purchase decision through his suggestion or advice.
- **Decider:** Who decides on the purchase and also any purchase decisions like where, what and how to buy.
- **Buyer:** Who makes the actual purchase?
- **User:** The person who consumers or uses the product.

While profiling the customer, it is important to profile those members of the purchasing unit who takes up these roles. The next step in the profiling process is to decide on the information that is to be collected. Marketers can collect general date like demographic data which are often available in the public domain. These data help in proper segmentation and also in determining the market potential. Along with these data, it is important for marketers to collect personal data about their target customers. These data are difficult to capture and requires investment of people and financial resources. These data involves the media habits, hobbies, psychographics, purchase patterns, attitudes etc. In the book "Customer Equity ", Robert C Blattberg, Gary Getz & Jacquelyn S Thomas , identifies six major categories of customer profile data. They are:

- *Customer Sales Potential*: Refer to the potential sales volume from the customers.
- *Customer Characteristics*: Refers to the data related to customers like demography, income etc.
- *Summary Customer Equity Measures*: The value that the customer brings into the company.
- *Organisational Charts and Key Persons*: Applicable to business customers.
- *Influencers and Specifies:* The key roles customers play in the buying process.
- *Customer Attitudes*: The qualitative data about the customers.

Once the information requirements are finalized, marketers should decide on the collection of the data. It is very difficult to collect the personal data of the consumers. Hence marketers should adopt data collection techniques which are more qualitative in nature. It is important for marketers to take a long term view about collecting such data because of the cost involved. The data pertaining to the attitudes and purchase patterns should be collected on a continuous basis in order to make it relevant.

Data once collected should be effectively utilized in the decision making process. Technology has enabled companies to collect all sorts of data. Many managers

feel overwhelmed by the quantum of information collected. It is important for firms doing customer profiling to have a mechanism to make relevant data available to the decision makers.

In this era of high competition, customer profiling can prove to be the winning edge for marketers. One factor that determines whether a company is customer oriented or not is how the firm effectively uses customer profiling in their decision making process.

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SUMMARY

- This approach to the evaluation of market segments is often referred to by the DAMP acronym, making it easier to remember.
- A differentiated targeting approach recognizes that there are several market segments to target, each being attractive to the marketing organization.
- The final approach is a customized targeting strategy in which a marketing strategy is developed for each customer as opposed to each market segment.
- Functionally positioned brands emphasize the features and benefits, whilst expressive brands emphasize the ego, social, and hedonic satisfactions that a brand can bring.
- Repositioning is essentially a task that revolves around the product and the way it is communicated.
- Profiling helps the marketer in better targeting, better communication and also provides a thorough understanding about his/her buying behavior.
- Data once collected should be effectively utilized in the decision making process. Technology has enabled companies to collect all sorts of data.

REVIEW QUESTIONS

1. Discuss the target markets.
2. Discuss the targeting approaches.
3. Discuss the positioning.
4. Discuss the positioning strategies.
5. Discuss the profiling of customers.

FURTHER READINGS

- Ashton B. W., A. H. Johnson, and G. S. Stacey. 1994. Monitoring science and technology for competitive advantage. *Competitive Intelligence Review* 5: 5—16.
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UNIT VI: NEW PRODUCT DEVELOPMENT

NOTES

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe the importance of product development.
- know what is drug discovery?
- explain the development of research.

6.1 INTRODUCTION

New product development and introduction (NPDI) is probably the most important process for many companies, but also one of the least understood (and, perhaps, executed). Important because, as we will see, NPDI is responsible for the revenues and margins that a company can achieve and its ultimate value.

It is the least well understood process because few companies assign a single individual to be responsible for the whole process. Instead, it is usually driven through a series of functional "silos," causing delays to build up and, often, the original market requirements to get lost.

But let's start with a definition. Our definition of NPDI starts with the identification of an opportunity in the market ("somebody needs a product to do this") and ends with the successful launch of the product. In between are many activities to define the requirements, develop and test a product concept, fully define and develop the product, source for suppliers involved, plan the manufacturing and supply chain, and prepare marketing programs. On top of that, it's about defining the product strategy, managing the overall product program, and monitoring all the projects and activities needed to drive the NPDI process.

Most functional areas of the company get involved at some time or another, including marketing, engineering, supply management, manufacturing, finance, and so on. As the people in these functions use enterprise systems to help them do their jobs, all of these systems are involved in NPDI: for example

customer relationship management (CRM), enterprise resource planning (ERP), product life-cycle management (PLM), supply chain management (SCM), supplier relationship management (SRM), and many others.

Our definition is important because it includes all of the processes that "change" the company. Think of the company as a giant machine: raw materials and parts go in one end, are turned into products by machines and labor inside, and are shipped out to customers at the other end. Many of the people inside of the company are solely dedicated to nurturing and managing this "machine." All well and good until we want to "change" what the company is making. This is what NPDI does: it changes what we buy (and who we buy it from), changes what we make (and how we make it), changes how it gets to the customer, and changes how we market it to the customer. Typically, a different group of people are responsible for making the changes. Once the changes are complete, stability is restored. NPDI can create change on a number of levels, including:

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- Incremental product changes, which may have minimal impact on sourcing and manufacturing, but may entail a new marketing program
- New product introductions, which may require significant market research and engineering and entail more significant changes in sourcing and manufacturing, as well as a major marketing program
- New category introductions, which entail all of the above plus dealing with the risk of introducing a product that the market is completely unfamiliar with
- Is NPDI the same as innovation? Innovation is clearly part of the NPDI process, without it there would be no new products or no new ways to make, market, and sell them. But innovation would be useless without the ability to change how the company operates, to successfully introduce the new product.

The job of NPDI is not done until the product is in the market, shipped at the right time, delivered to the right customers, and in the right volumes.

6.2 IMPORTANCE OF R&D

For a company to prosper and grow it must do more than keep up with its competitors and it must in fact get ahead of them whenever possible. Getting ahead means innovation which hinges on research and development (R&D). Research seeks to make basic discoveries and uncover new principles or facts so far unknown or unrecognized. Development concerns the most economically feasible method for applying the facts or principles identified by research before a product goes into full scale production. Industry is aware that tomorrow's profit depends to a large extent on today's research and the fact that money invested now in R & D probably will not generate come for several years to come. One thing for sure is that without R & D effort, there may not be any future for the company.

6.3 RESEARCH

The commonest areas of research in the board sense are:

(*a*) Pure Research
(*b*) Applied Research
(*c*) Product Research
(*d*) Manufacturing Research
(*e*) Materials Research
(*f*) Market Research
(*g*) Operations Research.

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Pure Research or Fundamental Research refers to investigations undertaken primarily of the sake of knowledge itself. In this type of research, there is no consideration of commercial gains. The effort is directed towards learning the laws of nature or the detailed study of accepted theory in the light of development of new knowledge. The direction of any pure research is not specified in advance but is determined as the work progresses. Traditionally, Pure Research has resulted in 'Breakthroughs' which have been recognized by coveted awards like the Nobel Prize.

Usually Pure Research is carried out in Universities funded by the government/ industry. However many large corporations like DuPont, Eastman Kodak, General Motors, AT&T, General Electric, IBM etc. have been carrying at Pure Research.

Applied Research is primarily directed towards solving some specific problem which has a practical purpose. Typically applied research finds uses for results of Pure Research. Development of transistor, computer chips etc are examples of applied research. Applied Research is designed to solve practical problems of the modern world, rather than to acquire knowledge for knowledge's sake. One might say that the goal of the applied researcher is to improve the human condition.

Several researchers feel that the time has come for a shift in emphasis away from purely basic research and toward applied research. This trend, they feel, is necessitated by the problems resulting from global overpopulation, pollution, and the overuse of the earth's natural resources, global warming, etc.

Product Research attempts to uncover new product ideas which will meet the requirements of current as well as prospective customers. In expanding product research, efforts may be directed toward new and different products, new uses for present products or utilization of a by-product. The stimulation for product research may come from results of some pure research effort, some ideas from customers, need to utilize special technical skills available in a company, desire to expand product line in a feasible direction, etc.

Manufacturing Research is directed towards development of tools and equipment, handling devices, and methods of manufacture which can result in costs and increase productivity. Manufacturing research is carried out parallely with product research as the feasibility of product research depends on the feasibility outcome of manufacturing research. Fiber optics, Robotics, humanoids, Just In Time (JIT) manufacturing, etc have added new focus in the area of manufacturing research.

Materials Research is linked with both product research and manufacturing research as the discovery of new materials has impact on both. The jet and missile age has put great emphasis on materials research leading to success of many space programs. Superplastic steel has made possibility of casting complex shapes such as precision gears by eliminating the need of costly final machining and joining commonly required with very hard forged steels. Materials research has also introduced new materials such as plastics that can conduct electricity, that change color with changes in temperature, that degrade in sunlight without spoiling the environment, and superplastics from which automobile engines can be made. High-tech ceramics, which incidentally do not resemble traditional earthenware pottery, have been developed which are stronger, harder, lighter, and more durable than metals. These ceramic materials have already shown up in base ball bats, golf clubs, and are being considered for aircraft and automobile engines. Some engine components made from advanced ceramic materials have the potential of eliminating radiator systems and the need for lubricants such as motor oils.

Market Research is a systematic, objective collection and analysis of data about a particular target market, competition, and/or environment. It always incorporates some form of data collection whether it is secondary research (often referred to as desk research) or primary research which is collected direct from a respondent. The purpose of any market research project is to achieve an increased understanding of the subject matter. With markets throughout the world becoming increasingly more competitive, market research is now on the agenda of many organizations, whether they are large or small. To conduct market research, organizations may decide to undertake the project themselves (some through a marketing research department) or they might choose to commission it via a market research agency or consultancy. Before undertaking any research project, it is crucial to define the research objectives.

After considering the objectives, Market Researchers can utilize many types of research techniques and methodologies to capture the data that they require. All of the available methodologies either collect quantitative or qualitative information. The use of each type of information very much depends on the research objectives but many believe that results are most useful when the two methods are combined.

Operations Research (OR) is focused on the application of information technology for informed decision-making. In other words, OR represents the study of optimal resource allocation. The goal of OR is to provide rational bases for decision making by seeking to understand and structure complex situations, and to utilize this understanding to predict system behavior and improve system performance. Much of the actual work is conducted by using analytical and numerical techniques to develop and manipulate mathematical models of organizational systems that are composed of people, machines, and procedures.

6.4 DEVELOPMENT

Development is concerned with the most economically feasible method for applying the facts or principles identified before a product goes into full scale production. Development is carried out typically after applied research which itself is completed after related Pure Research. For the chemical industry, evolving a new process technology from bench scale laboratory studies to pilot plant or semi commercial plant and then scaling up to a full scale commercial plant is an example of development.

In the engineering industry, process development focuses on machines, tooling, methods, plant layout, special device design, CAD/CAM etc. The development team which is interdisciplinary in nature reduces the discoveries of research to practicable and viable ways of implementation. Product development is the bridge between research work and engineering work. The product development team makes several product designs, tests and evaluates the designs. The product development team works in close rapport with the process development team and the market research team.

6.5 ORGANIZING FOR R&D IN PHARMACEUTICAL

More than a head, R&D projects require a champion and if the project does not have a champion, one must be got as soon as possible. A champion is someone in

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an influential position who likes and actively promotes the project to the company. Champions emerge or are selected. They often come from technical or marketing and occasionally from business. Communication between the champion and the other departments must be good. Champions from marketing are often more effective. If a project is completed and still does not have a champion it will probably be shelved. This should be no surprise. It means that not even one influential person inside the company liked the project enough to fight for it. The spread of off shoring activity worldwide has brought in its wake challenges to the science and practice of management, particularly in the case of off shoring of R&D.

6.6 DRUG DISCOVERY

The drug discovery process is aimed at discovering molecules that can be very rapidly developed into effective treatments to fulfill unmet medical needs. Though this process has become many folds faster as compared to that in the past due to advances in basic science and technology, delivering successful drugs still remains a daunting task. Traditionally, the effects of new drugs were characterized by the pharmacological actions in animal models or isolated tissue/organ systems. Drug screening was based on basic knowledge and understanding of biology, the disease symptomatology and the existing drugs used in therapy. Since pharmacological effects were characterized, this process of drug discovery was independent of the understanding of the etiology and pathophysiology of the disease or the mechanism of action of the compound. This was otherwise known as physiology-based drug discovery.

Contemporary drug discovery process operates on a target-based approach, in which the organism is seen as a series of genes and pathways and the goal is to develop drugs that affect only one gene or molecular mechanism (i.e., the target) in order to selectively treat the deficit causing the disease without producing side effects. This approach consists of five steps: Target identification, where the exact target and the specific patient population are identified; Target validation, where the therapeutic value of the target in the specified patient population is determined; Assay development, where the target is converted to an HTS assay system; Lead identification, where compound libraries are screened to identify target selective compounds; and lead optimization, where lead structures are optimized for target affinity and selectivity. Drug candidates discovered using this approach needs to be validated on a disease-specific animal model to provide experimental proof of concept. This radical shift in the drug discovery process from physiology-based approach to target-based approach offers high screening capacity and supports to formulate simple, clear requirements to candidate drugs, which allows implementation of rational drug design.

Target Identification

A target is usually a single gene, gene product or molecular mechanism that has been identified on the basis of genetic analysis or biological observations. The completion of human genome project has resulted in identifying as many as 7000 targets including orphan targets. However, this need not result in more drugs discovered. The first and critical step in the drug discovery is the identification of the disease-specific target, which upon modulation would offer therapeutic benefits.

Though many drug candidates enter the clinical phase, one of the reasons why many molecules are ineffective in phase II and III clinical trials is that the target

selection could be based on data and rationale that are actually irrelevant to the etiology or pathogenesis of the human disease. For a drug to be effective against a disease, two variables must be matched-the target and the right therapeutic indications. The success rate of discovery of molecules from screens is therefore directly related to target choice.

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Disease-gene association studies provide an evidence-based opportunity to identify target choice rapidly and more specifically. Further, an identified gene in association with a disease enables to screen large chemical libraries against them. Thus the candidate leads derived from genetically associated targets can increase the probability of success in Phase II or Phase III clinical trials.

Specific gene variants to particular diseases are referred as disease mutation. Expression of a disease can also be a result of multiple variants of several genes, commonly referred to as susceptibility genes. Targets based on the susceptibility genes are not 'good' drug targets and thus should not be selected for drug discovery.

Though animal models set gold standard in selecting the disease target, their relevance to the human disease conditions is questionable. Hence, some discovery labs have identified targets that are genetically involved with human diseases, which could be used to produce appropriate disease condition in the animal model by knock-out or knock-in techniques. To identify the targets associated with human disease, three major components are required: (*i*) Selection of the gene targets to be screened; (*ii*) Well-characterized clinical data; and (*iii*) Genetic data generation and statistical analyses. Thus target identification with very strong evidence for proof of mechanism is critical, which would minimize the attrition in the later stages.

The need to analyze large numbers of well-characterized human tissues constitutes a major bottleneck in drug discovery and development. Traditional tissue analysis in a slide-by-slide manner is slow, expensive and difficult to standardize. In addition, precious specimens, such as tissue samples from clinical studies, are usually exhausted after a few analyses. The tissue microarray technology overcomes these shortcomings as it allows the simultaneous analysis of up to 1000 minute tissue samples in a single experiment. Tissue microarrays (TMAs) significantly facilitate and accelerate in situ analysis of tissues in target discovery and validation. Although the TMA technique has mostly been used in oncology, there are also a few examples of TMA applications in non-neoplastic diseases, for example, in neuronal tissues, indicating that TMAs can be applied to all fields of medical research in which tissue analyses are required.

Target Validation

The objective of target validation is to provide confidence to the investigator to initiate the more expensive drug discovery process. It is essential to have more disease-specific targets to get more productivity from drug discovery research. The specific relevance of the target in the pathogenesis of human disease is to be validated so that the NCE would possess potential therapeutic benefit. The target is validated by identifying its involvement in the disease on experimental animal models (*e.g.*, knock-out or knock-in animals and search for phenotypes). However, the phenotypic correlation between animals and humans need not match. The best approach could be identifying the phenotypic expression of the disease in humans and check for their expression in animal model.

The drug candidate undergoes proof of concept in humans (phase II clinical trail) only after completion of preclinical testing and phase I clinical studies. Since a

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phase II clinical trial that justifies the target choice involves high cost, it is essential to validate the target at the preclinical stage. The success rate of efficacy (experimental proof of concept) studies in animal model is probably a much earlier indicator of the health of drug discovery pipeline. The valid target results in effective lead candidates with higher probability of success.

Assay Development

A number of factors dictate the components of a screening assay. They are; the relevant target-biology and the goal of the screen. The goal of screens is to identify inhibitors and in some cases or activators of the target of interest in certain other cases (the Hits). So it is important to differentiate 'true' modulators from false-positives in the assay. This is largely related to the quality of the assay used. Assay quality has traditionally been judged by factors such as signal/noise or signal/background ratio. However, both of these metrics define assays mainly on the basis of assay window, that is, the difference between the assay background and the maximal signal. The size of the signal window and the precision of the data from the assay are two key factors in assigning statistically significant value to an assay. Since receptor-binding assays cannot differentiate between agonists and antagonists, a functional cell-based approach is being used for receptor screening.

An assay method should be specific for the analyte of interest and since most of the biomolecules are in micro or nano quantities it is necessary that the method should be sensitive apart from being specific. Hence, hyphenated techniques are used for such analysis and an HPLC equipped with MS is used whenever required. An automated routinesample analysis process, providing data on the automation of sample preparation, in vitro drug metabolism, P450 inhibition assays and Caco-2 transport assay is now being frequently employed. Accelerated mass spectrometry (AMS) enables accurate quantification of radioactivity based [14C]:[12C] ratios. The sensitivity of AMS (1000-fold more sensitive than liquidscintillation counting) enables human in vivo pharmacokinetic studies to be performed during the early phases of drug discovery.

Cell-Based Assays

Contemporary drug discovery uses targets that are mostly present intracellularly. Cell-based assays facilitate to identify the interaction of the molecules with intracellular targets like ion channels or transcription factors. Cell-based assays also permit more information-rich, multiparameter readouts using live cells even in real time. Most of the cell-based assays use optical methods for detection. A major advantage of the optical detections is that the strong signal from the indicator can be measured with quite small endogenous background signal and thus offering high signalto-noise and sensitivity required for high-throughput assays. Chemiluminescent assays use chemical reactions to generate light. Luciferin, a substrate for luciferase, used in receptor gene constructs and aequorin, a calcium-sensitive protein are widely used luminescent indicators. The strength of luminescent indicators is the low background signal and, thus, luminescence assays are very sensitive and have a large dynamic range.

However, the weakness is the low photon flux of the current luminescence systems (~0.1 to 0.2 photons per second), which restricts this method to large cell numbers and can require high intracellular expression that is often only obtained by transient transfection protocols. In fluorescent assays, the photons are converted to excited state, which is short-lived and can be repeatedly excited, giving a bright

signal. Thus, single cell assays are possible with spatial resolution sufficient for the investigators to determine the subcellular distribution of the fluorescence probe. Single-cell detection can also be quite useful because it allows separation of expressing cells and, thus, enrichment of the cell population for function transfectants. A potential drawback with fluorescent assays is false positive due to inherent fluorescence of the molecules under screening. A particularly powerful fluorescence-based approach is fluorescence resonance energy transfer (FRET), which results when two fluorophores with appropriate spectral overlap are in close proximity either due to intra- or intermolecular interactions. For example, one can even use FRET to detect the conformation and metal binding of proteins, such as metallothionein, within cells. Excited energy is transferred from the donor to the acceptor, which results in a decrease in donor intensity and a concomitant increase in acceptor intensity. The ratiometric detection of the changes in signals not only improves reproducibility and sensitivity Suresh Kumar P, et al.: Current approaches in drug discovery but also markedly reduces cell number; probe concentration and optical path distance as variables. Restrictions of FRET are: the optimal spatial location or orientation of fluorescence probes is often not known; high levels of intracellular probe expression are required and sometime difficult to achieve except with transient transfection; and the spectral overlap between the emissions of the donor and acceptor can reduce the dynamic range of the assay. FRET is especially used for mapping the subcellular localization of targets and intracellular protein-protein interactions, which makes it to be used widely in screening with combinatorial libraries.

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Biochemical Screening

Can provide significant advantages over cell-based approaches, particularly for intracellular targets. A well-optimized biochemical assay will, generally, have less data scatter than a cell-based assay. Furthermore, the presence of a single target in the assay simplifies follow-up after the screen. Biochemical screening also provides a larger series of chemical starting points for intracellular targets, as the hits obtained are not initially required to possess significant potency and cellpermeability.

Biochemical screens are also performed at higher compound concentrations, which aids in the identification of novel chemical classes.

Lead Identification

Since large numbers of diverse chemicals (>100,000) need to be screened to identify lead candidates, the primary screening to identify hits must be a very rapid process. Thus screening techniques like HTS, HCS and cell-based assays have emerged and used to identify hits. The primary screening assay involves the target of choice in the assay to identify hits.

SUMMARY

- **Applied Research** is primarily directed towards solving some specific problem which has a practical purpose.
- **Manufacturing Research** is directed towards development of tools and equipment, handling devices, and methods of manufacture which can result in costs and increase productivity.
- **Materials Research** is linked with both product research and manufacturing research as the discovery of new materials has impact on both.

- **Market Research** is a systematic, objective collection and analysis of data about a particular target market, competition, and/or environment.
- The drug discovery process is aimed at discovering molecules that can be very rapidly developed into effective treatments to fulfill unmet medical needs.
- A target is usually a single gene, gene product or molecular mechanism that has been identified on the basis of genetic analysis or biological observations.

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REVIEW QUESTIONS

1. Discuss new product development in detailed.
2. Explain the drug discovery.

FURTHER READINGS

- Ashton B. W., A. H. Johnson, and G. S. Stacey. 1994. Monitoring science and technology for competitive advantage. *Competitive Intelligence Review* 5: 5—16.
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UNIT VII: PRODUCT LIFE CYCLE AND PORTFOLIO MANAGEMENT

NOTES

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe the protection of patent.
- explain the all type phase.
- know about the diffusion and adoption processes.
- describe the portfolio management.

7.1 INTRODUCTION

In the past two years alone, pharmaceutical companies have added more than one hundred new treatments to the nation's medicine chest. *PhRMA, 1998*

Pharmaceutical products follow the same course as consumer products, that is, a rise, plateau, and eventually a fall of sales, in a phenomenon which has been described as the *product life cycle* or PLC. There are multiple reasons behind a product's life cycle changes including the following: (*a*) different customers buy the product at different stages (diffusion of innovation); (*b*) evolving competitive

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structure of industry; (*c*) evolving internal product portfolio priorities; (*d*) evolving cost structure of the product; (*e*) evolving dosage strength and formulation of the product; and (*f*) evolving design and manufacturing of the product. Due to these and other reasons, every product needs a differentiated marketing strategy throughout its PLC stages. Industry marketers should master the art of life cycle management in order to maximize the product's life cycle and profits. The distinct phases of a product's life cycle are depicted in Figure 7.1.

Occasionally a consumer may find pharmaceutical products that were originally launched in the world marketplace several decades ago and now have seemed to reach immortality (aspirin, penicillin, cisplatin). There are two reasons behind the apparent immortality of these substances. Either the products were significant therapeutic breakthroughs at the time of their launch and are considered reference drugs, or there has not been any significant therapeutic innovations in their respective indications and they remain the valid therapeutic choices today. This by no means indicates the sustained profitability of the original manufacturer, who may have abandoned the therapeutic area all together, bowing to the competitive pressures of myriad me-too products. This unit, then, discusses the PLC management of product brands—the valuable assets of industry marketers during their years of patent protection.

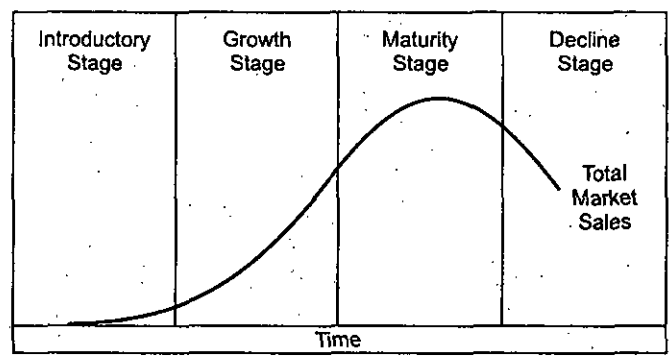

Fig. 7.1 The product life cycle

7.2 PATENT PROTECTION

According to the U.S. Patent and Trademark Office, "a patent for an invention is a grant of a property right by the government to the inventor (or his or her heirs or assigns), acting through the Patent and Trademark Office. The term of the patent shall be twenty years from the date on which the application for the patent was filed in the United States or, if the application contains a specific reference to an earlier filed application under 35 U.S.C. 120, 121 or 365(c), from the date the earliest such application was filed, subject to the payment of maintenance fees. The right conferred by the patent grant extends only throughout the United States and its territories and possessions." The right conferred by the patent grant is, in the language of the statute and of the grant itself, "the right to exclude others from making, using, offering for sale, or selling" the invention in the United States or "importing" the invention into the United States. What is granted is not the right to make, use, offer for sale, sell or import, but the right to exclude others from making, using, offering for sale, selling or importing the invention.

Because the patent exclusivity period starts the day the patent application is filed and many years are needed for the completion of a products R&D phase (which can take as much as ten years), a pharmaceutical innovator is left with only a limited period in which to get a return on the huge R&D investment that was allocated to its discovery. The process of a drugs commercialization is a resources- and time-based approach that needs to be carefully designed and implemented in order to acheive the expected returns. In this unit, the whole process—from the drug discovery and patent application to its launch, sales growth, maturity, and decline—is presented, together with the requirements for success at every stage.

A patent for a pharmaceutical invention may have different legal statuses. For example, it may be valid for certain geographical regions only or for a large number of remote countries that depend on the existence of a mutual patent protection agreement. Furthermore, the market exclusivity provided by a patent may be strictly enforced by some national authorities, while others may not have the resources or the political will to enforce it. In such situations, the marketplace doors are wide open to me-too manufacturers, and the return-on-investment of the original manufacturer becomes a difficult goal. Industry professionals are aware of areas where patent protection is lax and foreign pharmaceutical innovations are easily copied. However, trade associations of the negatively affected industries have been conducting strong lobbying campaigns for the stricter enforcement of patent protection laws. Significant success has been achieved in the last few years.

7.3 CONCEPTION AND PRODUCT DEVELOPMENT

The product conception and development phase was extensively. As stated earlier, this phase begins with basic research, and then gradually moves through a series of preclinical and clinical research phases that lead to a new drug application (NDA). This is a long and risky period of resource-intensive activities and no product sales, thus a prolonged negative-profitability period.

One of the most important aspects of a product's life cycle management is maximizing product revenue during the very limited period of remaining patent exclusivity at the time of launch. A typical product introductory period will take several months, or even years, to reach its growth levels, provided that the product's promotional effort starts at launch. However, as Figure 7.2 shows, pharmaceutical marketers can use a very significant business tool called premarketing to raise consumers' awareness before the product becomes available. The introductory phase becomes shorter and revenue is maximized.

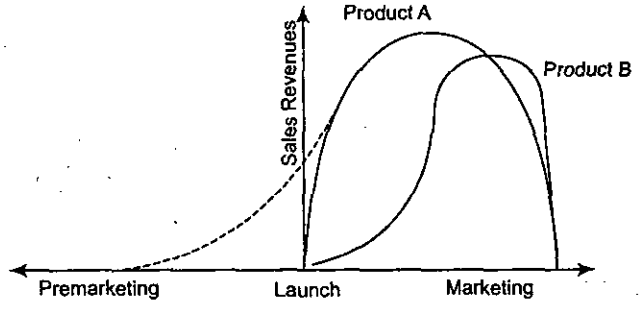

Fig. 7.2 The need for premarketing

How is premarketing conducted? Table 7.1 summarizes the reasoning, methodology, strategy, and key activities of pharmaceutical premarketing. In

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general, premarketing should be initiated at least two years prelaunch, or at the beginning of Phase III of clinical research. The activities needed for premarketing require significant human and financial resources. Early commitment to the potential new pharmaceutical product from the company's management is essential. Some organizations assign the design of premarketing strategy to the product managers who will eventually take responsibility of the marketed product. However, this often takes time and energy away from other product priorities. Alternatively, premarketing activities are directed by specialized marketing managers, often called new product development or new market development managers. These managers either transfer the responsibility of the product to the brand manager or continue with it as a full-time responsibility.

7.4 INTRODUCTION PHASE

During the introductory phase, a pharmaceutical product's sales revenues are small and exhibit a slow growth (see Table 7.2). The manufacturer is trying to gain product acceptance from the prescribers or patients. The overall marketing strategy behind this stage is to attract the therapeutic area opinion leaders, who are essential in communicating the product's benefits to their colleagues through the pyramid of influence cascade. The product is offered only in a limited number of dosage strengths and formulations, while the prices are often high and stable (provided the product is an innovative one).

During this phase the industry marketers' main information need is market data that helps them define the product's optimal targeting, positioning, and profiling. In

Table 7.1 The Case for Premarketing

Reasoning	Methodology	Strategy	Key Activities	Internal Activities
Faster market penetration	Create a demand	Positioning	Market research	Demand Forecasting
Higher market shares	Develop a user pool	Targeting	Clinical trials	Manufacturing
Higher long-term profits	Build company image	Profiling	Congresses	Logistics
	Build awareness	Promotion	Publications	Product management
		Formulation	Develop OLs	Medical marketing
		Packaging	Advisory Board	Sales force
		Pricing	Develop global campaign	Regulatory Support
		Comarketing	Branding	PR
		Budgeting	Training	
			Public relations	
			Advertorials	
			Mailings	

Table 7.2 Characteristics and Marketing Objectives of the Different PLC stages

Characteristics	Introduction	Growth	Turbulence	Maturity	Decline
Revenues	Small	Moderate	Large	Large	Moderate
Sales growth	Slow	Rapid	Slow	None	Negative
Costs	High fixed, High variable	Moderate fixed costs	Low fixed, Low variable	Low fixed, Low variable	Rising fixed costs
Profits	Negative	Increasing	Maximum	High	Decreasing
Customers	Innovators	Early adopters	Early majority	Late majority	Laggards
Competitors	0–2	Many	Fewer than before	3–4	Fewer than before
Marketing Objectives	**Introduction**	**Growth**	**Turbulence**	**Maturity**	**Decline**
Information needs	Positioning, targeting, profiling	Life cycle management		Life cycle management	Life cycle management
Overall strategy	Attract OLs	Expand distribution		Maintain advantages	Harvest/Terminate
Product mix	Basic model	Expand line	Product extensions, service	Full line	Best sellers
Product changes	A few	Many	Insignificant	Insignificant	Insignificant
Product offerings	Basic benefits	Major features	Major features	Secondary characteristics	Basic benefits
Pricing objective	Penetration/Skimming	Fight competition	Protect position		Maximize profits
Price	Stable	Declining	Declining	Stable	Declining
Distribution	Stable	Increasing	Decreasing	Stable	Decreasing
Advertising	Informative	Persuasive		Competitive	Informative
Sales force	Large, Targeted	Large, Wide-focused		Key account management	Reduced

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order to increase consumer awareness and willingness to buy the following activities can be implemented: (1) offer clinical trial experience; (2) include physicians and patients in long-term treatment; (3) develop opinion leaders; (4) develop media spokespersons (such as successful patient testimonials); (5) sampling or couponing, (6) risk reduction; (7) adapt promotional mix; (8) broaden product offerings; and (9) modify marketing channels. Furthermore, the ability to prescribe and/or buy can be increased by the following activities: (*a*) penetration pricing; (*b*) adequate distribution; (*c*) liberal payment terms; (*d*) wholesaler consignment stocks; and (*e*) compatibility with existing medical supplies and equipment.

When a new product is introduced in a current therapeutic area, the company is said to be active in *product development*, as opposed to entering a new therapeutic segment with an existing product—a strategy called new *market extension*. Additionally, when a new product is introduced into a new therapeutic segment the company is pursuing a *diversification* approach (see Figure 7.3).

7.5 GROWTH PHASE

In the growth (or expansion) phase, a products sales revenues are moderate but rapidly growing and its profitability is increasing, while more competitors are entering the stage. The marketer's main objectives are to expand the distribution breadth and product line by offering new product benefits and forms. Furthermore, the increasing competitive intensity is driving product prices down. As far as the product 's promotion is concerned, the messages are now persuasive and often comparative to competition's (where comparative pharmaceutical advertising is allowed). The sales force is expanding, reaching more and more customers, often shifting its priority from the few medical specialists at the beginning to the large number of family physicians or general practitioners throughout the national markets.

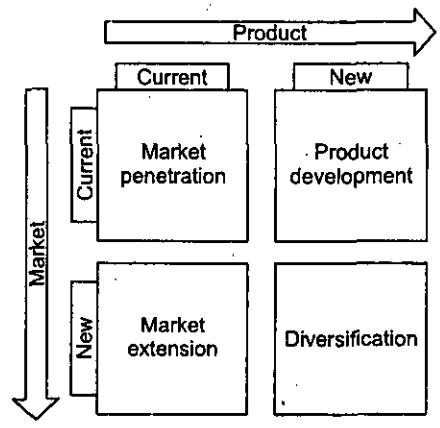

Fig. 7.3 New product versus market development

At the peak of the growth phase, some marketing scholars have proposed the existence of a separate phase called the *turbulence* (or shake-out) phase. This period is when product sales plateau and signifies the imminent entrance into the maturity phase. Some of the characteristics of the turbulence phase are the slowing of the sales growth, fewer competitors than before, and a stabilizing distribution base.

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7.6 MATURITY PHASE

At some point in a products life cycle every product reaches maturity, that is, a phase characterized by a stabilized sales performance, with low costs and high profits. At this stage, marketers are occupied with maintaining the product's advantages, often fighting competitive new product launches with new features and benefits. A full product line is now available, offering a wide spectrum of product dosages, administration route possibilities, and formulations. Both price and distribution are now stable. The pharmaceutical manufacturer is conducting competitive advertising. An important feature of this phase is the shifting of the sales force focus from the "blanket coverage" of every active prescriber to the "key accounts," or those physicians with the highest prescription potential and the highest profitability for the company.

7.7 DECLINE PHASE

Eventually, the product enters its decline phase, with decreasing sales, rising fixed costs, and an eroding profitability. Now, pharmaceutical marketers are faced with the dilemma of further "harvesting" the product, that is, prolonging its sales as long as possible or terminating the product and introducing a replacement. The product's advertising becomes a reminder and sales force time and effort are reduced.

7.8 PRODUCT WITHDRAWAL

After a pharmaceutical product has reached its decline phase, the decreased profitability may necessitate the product's withdrawal from the marketplace. Common reasons for a pharmaceutical product withdrawal include the following: low profitability, stagnant or declining sales volume or market share that would be too costly to build up, risk of technological obsolescence, entry into a mature or declining phase of the product life cycle, or product line conflicts. A variety of withdrawal strategies exist, which are characterized by the varying speeds of the product's elimination from the market. Possible withdrawal strategies are (*a*) harvesting, (*b*) line simplification, and (*c*) totalline divestment.

7.9 THE DIFFUSION AND ADOPTION PROCESSES

A product's *diffusion* process is based on its acceptance by the population. It depends on product characteristics such as relative advantage, complexity, compatibility, communicability, trialability, risk, and so on. Diffusion increases with standardized technology, leads to lower manufacturing costs, and translates into lower prices. A product's *adoption* is a customer's internal process, involving awareness, interest, evaluation, trial, and adoption (Figure 7.4). It has been observed that people vary in their propensity to try new products. Rogers (1976) has differentiated types of consumers according to their speed of adoption of new products. These different population groups, including the innovators, early adopters, early and late majorities, and laggards, have been shown to play a role in the adoption of most

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consumer products and pharmaceuticals. Figure 7.5 illustrates the average adoption process curve. The characteristics of the different prescriber groups, according to their pharmaceutical product adoption, are listed in Table 7.3.

Some of the factors influencing the speed of new pharmaceutical product diffusion among prescribers and patients are the following: (*a*) relative product advantage (NCE); (*b*) type of advantage to be gained (antacid versus oncological product); (*c*) compatibility with one's self (experiences, beliefs, values); (*d*) complexity (once monthly depot injection versus inpatient continuous infusion); (*e*) trialability (medicines often have to be included in a hospital formulary before an innovator physician may prescribe them); (*f*) observability (immediate pharmacodynamic effects or dissolution of disease symptoms will increase product adoption); and (*g*) past experience (a previously tried bitter tasting syrup formulation). Pharmaceutical development teams should take these factors into account early in the process, and test their product concepts with customer experimentation.

7.10 STRATEGIES FOR MODIFYING EXISTING PRODUCTS

Very often a successful product life cycle needs to be prolonged, either because the product can continue to be a significant revenue-making engine for the organization, or because the existing product pipeline does not guarantee a promising blockbuster in the near future. There exist a variety of possible product modification strategies, some of which are listed in Table 7.4. Once again, the customer needs, market and competition characteristics, and the company's own resources and expertise will dictate the use of one or more of these strategies.

Table 7.3 The Prescription Decision Adoption Model

Innovators	Early Adopters	Early Majority	Late Majority	Laggards
Adventurous	OLs	Longer decision Process	Very cautious	Older age
Well-educated	Literature readers	Follow the leaders	Follow peer pressure to adopt	Long-past medical education Limited networking
Forty-somethings	Localized in major centers		Practice setting must allow innovation	
Handle risk well	Wide networking			Very suspicious

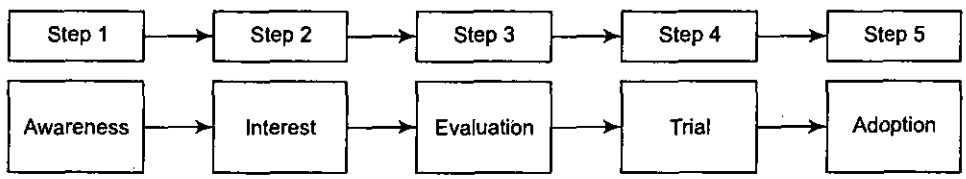

Fig. 7.4 Product adoption steps

A company's product portfolio mix can be plotted in a two-dimensional model of the products' relative competitive position versus their life cycle stage, indicating the product's focus on innovation and present competitive position in the marketplace (see Figure 7.6).

7.11 THE REGULATORY LIFE CYCLE

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A product's life cycle management requires not only good marketing and sales strategy planning, or changes in its distribution or pricing. Additionally, there has to be a robust and proactive regulatory plan, spanning the product's life cycle that allows new product modifications or indications to be introduced at the right phase. A regulatory life cycle plan used in the pharmaceutical industry is shown in Figure 7.7.

7.12 PORTFOLIO MANAGEMENT

The preceding units discussed the importance of new product development, the inherent risks involved, and the magnitude of company resources needed. We have also observed and analyzed the increasing globalization of the pharmaceutical industry players in their quest for long-term profitability and growth. These are only some of the factors that underlie the resource intensity and risks involved in the industry. They in turn, make the following questions critical: Are we getting the maximum return on investment and is the company doing all it can to maintain a long-term profitability? Do the therapeutic areas, geographical regions, and projects pursued have a strategic fit with the company's core competencies? And do the initiatives undertaken show a balance between therapeutic areas, short- and long-term or new and old products? These questions are in every international company's boardroom and are best addressed by portfolio management, which is discussed next.

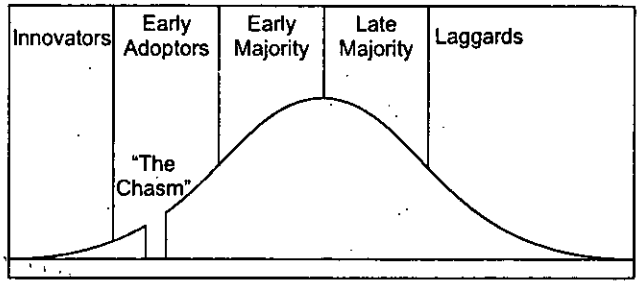

Fig. 7.5 The adoption process curve

Table 7.4 Product Modification Strategies

#	Strategy	Example
1.	Product modification	A molecular structure change resulting in higher efficacy.
2.	New therapeutic areas	A new clinical trial indicating its efficacy in a new indication.
3.	New uses	An antibiotic now available in a pediatric form.
4.	New dosage strength	A halving of the previous strength allowing individualization.
5.	New formulation	An injection now available in tablets and nasal spray.
6.	Relaunch	New promotional drive for maturing product.
7.	Cost reduction	A temporary rebate or permanent price reduction.
8.	Rx-to-OTC switch	Switching to OTC status and selling it through grocery chains.

What is a Product Portfolio?

A product portfolio is all marketed products and all products currently in R&D that a pharmaceutical company is involved with on a global scale. In other words, it

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includes all marketed product lines, brands, dosages, or formulations, and all those compounds currently in basic research, preclinical or clinical testing, and in every national market in which the company is operational. Therefore, a product portfolio is similar to an investment portfolio that includes all financial forms of investment worldwide. The portion of its product portfolio currently in R&D may also be called a *pipeline*, a metaphorical reference to the process that carries a pharmaceutical product from discovery to market.

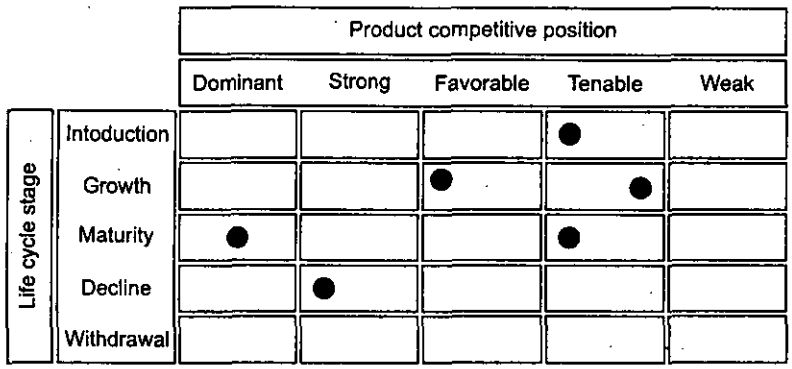

Fig. 7.6 A product portfolio model of competitive position versus life cycle stage

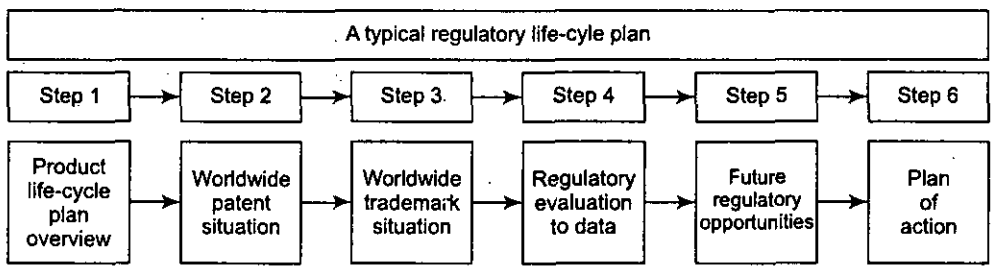

Fig. 7.7 A typical regulatory life cycle plan

Why, then, is it important to look at portfolio management? Because this provides essential answers to the following dilemmas: Which therapeutic areas will allow the organization to build and sustain a competitive advantage? How much investement should be allocated to each product (at the expense of the others)? What is the ideal performance attainable from each product? And how do you allocate resources across portfolios, including new and older portfolio members?

The three main goals of portfolio management are shown in Figure 7.8. They include the critical tasks of ensuring portfolio value maximization, strategic fit, and balance.

Portfolio Selection

The portfolio selection framework is shown in Figure 7.9. Potential projects are first prescreened, and, after a proper project analysis enter the screening phase. Suitable projects are selected and pursued. After any required divestments, they become part of the company's portfolio. This portfolio is in constant change because the parameters of value maximization, strategic fit, and balance may be better satisfied by incoming portfolio ideas. New portfolio inclusion and other portfolio divestment or discontinuation are a constant reality in today's pharmaceutical industry environment.

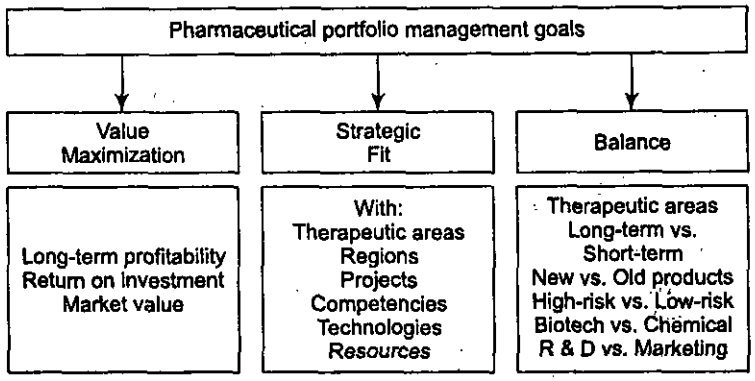

Fig. 7.8 Pharmaceutical portfolio management goals

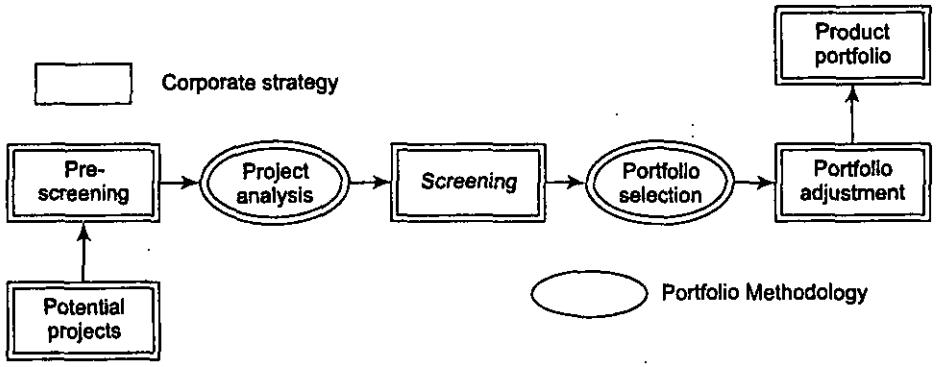

Fig. 7.9 The portfolio selection framework

Portfolio selection may occur at any stage of the R&D process and is discussed later. The general portfolio selection criteria are: (*a*) risk, that is, probability of success, (*b*) exposure, that is, cost of failure relative to firm's size, and (c) reward, that is, potential profits if successful.

Portfolio Assessment

Pharmaceutical portfolio assessment has three distinct targets (see Figure 7.10). First, it is involved is assessing the projects strengths and weaknesses in relation to customer needs, market characteristics, and competitor's offerings. Second, it attempts to ensure the project's long-term profitability. Third, it checks the project's strategic fit with the company's core competencies.

Several experts have proposed a wide spectrum of portfolio assessment tools that can be used by pharmaceutical industry managers. Figure 7.11 shows the five

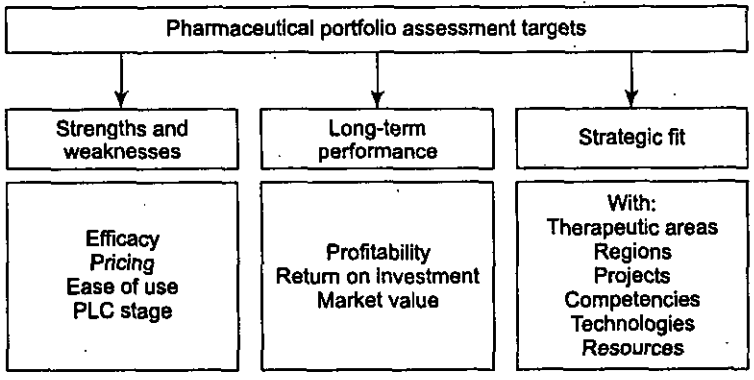

Fig. 7.10 Targets of pharmaceutical portfolio assessment

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major types of these assessment tools, namely, economic return models, risk analysis, various portfolio models, benefit/cost analysis, and market research. The first three types will be presented in this unit, while market research was presented earlier, and the benefit/cost analysis is the subject of pharmacoeconomics.

Idea Assessment Tools

The initial idea assessment (prescreening) is based on several potential market criteria, such as the market size or unmet therapeutic needs. Some of the most commonly used techniques are the following: (1) *perceptual mappings* which identifies areas of unsatisfied customer demand; (2) *consumer choice modelings* such as conjoint analysis, which identifies measures of consumer value for each product attribute, allowing the firm to custom design a preferred product; and (3) *cluster analysis*, which identifies logical groupings of products and customers.

Concept Screening Tools

Concept screening is based on a more in-depth analysis of the concept's characteristics and risks, such as the research risks, research and development costs, strategic fit, market potential, economic return, and life cycle. Table 7.5 provides a detailed pharmaceutical product concept screening grid.

Table 7.6 shows a hypothetical product portfolio assessment of two therapeutic classes. The variables used are the following:

- Therapeutic Class A compared to Therapeutic Class B
- Each therapeutic class has two indications, 1 or 2
- Each indication can be treated with two formulations, *a* or *b*

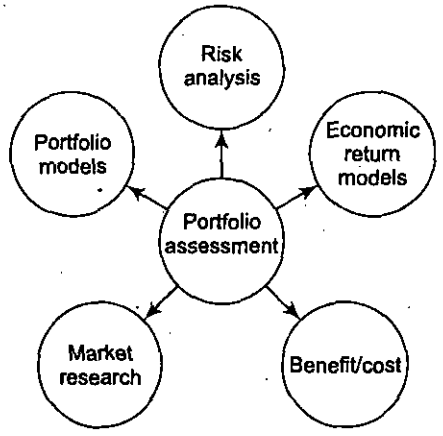

Fig. 7.11 Portfolio assessment techniques

Table 7.5 Portfolio Concept Screening Grid

Parameter	Measure	Weighing	Rating	Score
Research risk analysis (Probability of technical success [PTS])	Efficacy, safety, tolerability, interactions, contraindications, formulation, approval Decision tree method			
R&D costs	Capital investment, research, regulatory, marketing, sales, head count, overhead			
R&D time	Basic research Preclinical testing Clinical testing Development phase			

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Strategic fit	Financial, core competencies, human capital, manufacturing capacity, manufacturing equipment, raw material, distribution channel, product line fit/cannibalization			
Market potential	Satisfaction of unmet therapeutic need Disease prevalence and incidence Market value Patients aware, diagnosed, treated, and compliant Treatment duration First 5-year product sales Time from launch to peak sales Product sales at peak year			
Economic return	Internal Rate of Return (IRR) Return on Investment (ROI) Net Present Value (NPV) Economic Value Added (EVA)			
Life cycle	Market size Changing customer needs Unique competitive advantage Present and future competition Future line extensions			

In addition to the visual grid (Table 7.6), there are a variety of mathematical models used to estimate a concept's profitability. These include the following.

The Net Present Value (NPV) method

$$ECV = [(NPV \times Pcs - C) \times Pts - D]$$

where $ECV = Expected commercial value of the project; Pts = probability of technical success; Pes = probability of commercial success (technical success is given); $D = development costs remaining in the project; $C = commercialization (launch) costs; and $NPV = net present value of the project's future earnings (discounted to the present) (see Figure 7.12).

The probability of success can be estimated with the following methods: (1) **Delphi method,** which is attempting to reach experts' census, and (2) **Matrix method,** which is plotting market newness and competitive advantage gained (see Figure 7.13).

Table 7.6 Product Portfolio Assessment of Two Therapeutic Classes

	8 possible portfolio alternatives							
Parameter	**A-1-a**	**A-1-b**	**A-2-a**	**A-2-b**	**B-1-a**	**B-1-b**	**B-2-a**	**B-2-b**
Know-how available	•	•			•	•	•	•
Personnel available		•			•	•	•	
Development time (years)	4	4	6	6	5	5	8	8
Qualitative ranking	# 3	# 1	# 6	# 6	# 2	# 2	# 4	# 5
Investment required (U.S. dollars)	20	25	30	30	15	16	22	24
Sales expected (U.S. dollars)	100	150	80	60	200	250	50	75
Financial ranking					# 2	# 1		

The ECC version of the model incorporates the strategic importance of the project, as follows.

$$ECC = (NPV \times SI \times Pcs - C) \times Pts - D$$

where NPV = net present value of 10-year cash flow, after launch (inclusive of all project costs); SI = strategic importance index (high, medium, low = 3, 2, 1

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respectively); Pcs = probability of commercial success (0.2 to 1.0, increments of 0.2, according to internally established criteria); C = commercialization (launch) costs (capital, marketing); Pts = probability of technical success (0.2 to 1.0, increments of 0.2, according to internally established criteria); and D = development costs.

The Productivity Index Method

$$PI = [ECV \times Pts - R\&D]/R\&D$$

where PI = productivity index and R&D = R&D expenditures.

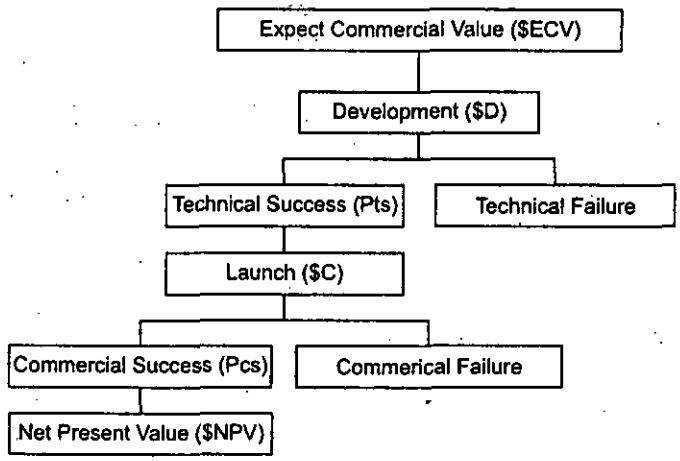

Fig. 7.12 NPV portfolio assessment method

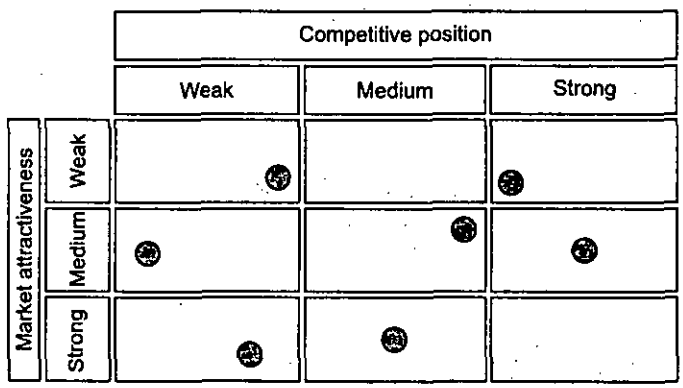

Fig. 7.13 The Matrix method for estimating a project's probability of success

Clinical Research Decision Points

The following are critical pharmaceutical research decision points, evaluation parameters, and relevant criteria for a Go/No Go decision:

1. **Lead identified:** Evaluation parameter: biomarker. Criteria: pharmacologic activity, in vitro and in vivo potency and selectivity, metabolic resistance, viable synthesis and production, and patentability.
2. **Enter development:** Criteria: in vivo activity in disease model, pilot toxicity data, preliminary metabolism data, and estimate of synthesis costs,
3. **First in man (FIM) administration:** Criteria: adequate rationale and data from animal models to suggest beneficial effect in disease target, and adequate safety margin in animal models to enter clinical testing.
4. **Proof of concept (POC) principle (Phase I to II transition):** Evaluation parameter: surrogate marker. Criteria: pharmacologic activity in humans, acceptable therapeutic index, and competitive advantage.

5. **Phase II to III transition:** Evaluation parameter: Clinical benefit. Criteria: pharmacologic effect shown, dose-response shown, acceptable therapeutic index, acceptable competitive advantage (similar to target profile, acceptable synthesis costs, and viable manufacturing.
6. **Regulatory submission:** Criteria: proof of efficacy and safety and active substance and pharmaceutical product manufacturing process validation.

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Portfolio Risk Analysis

A project's risk analysis is designed to evaluate the project-related costs versus the probability of success at any step of the discovery-to-commercialization process. Figure 7.14 depicts a project risk analysis decision tree often used in the pharmaceutical industry.

The results of several projects' risk analyses are then plotted in a two-dimensional risk analysis model (see Figure 7.15). This helps marketers prioritize among several R&D projects.

The probability of technical success can also be plotted against financial reward measurements (for example, NPV) in a two-dimensional matrix, as shown in Figure 7.16. The Arthur D. Little consulting firm has labeled the four resulting matrix quadrants, as pearls, oysters, bread and butter, or white elephants. These quadrants indicate various degrees of the project's probability of success versus the expected returns.

Finally, others have plotted the probability of technical success against the project's NPV in a two-dimensional risk-reward bubble diagram. The shape of the resulting diagram bubbles helps visualize the forecasted ranges of these two parameters (see Figure 7.17).

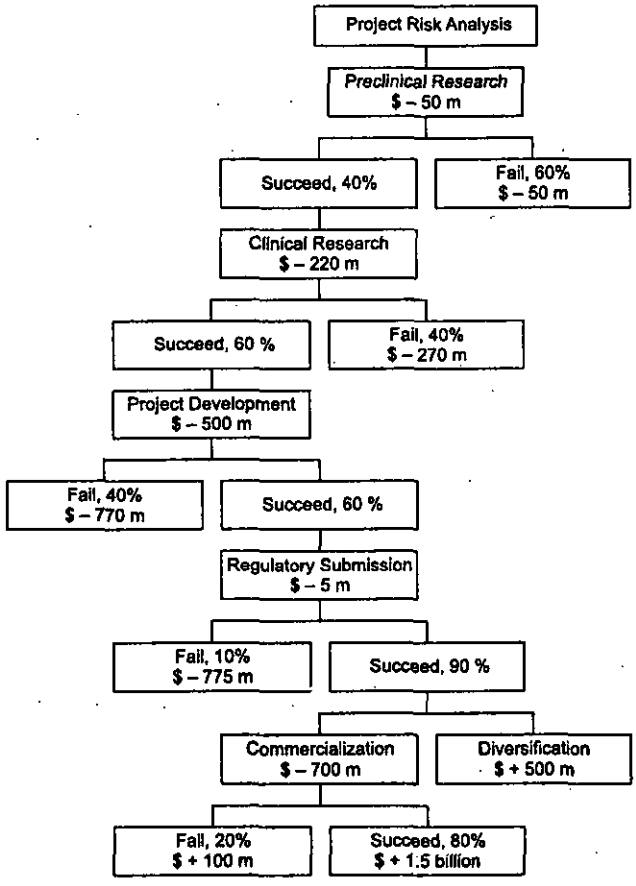

Fig. 7.14 Portfolio project risk analysis decision tree

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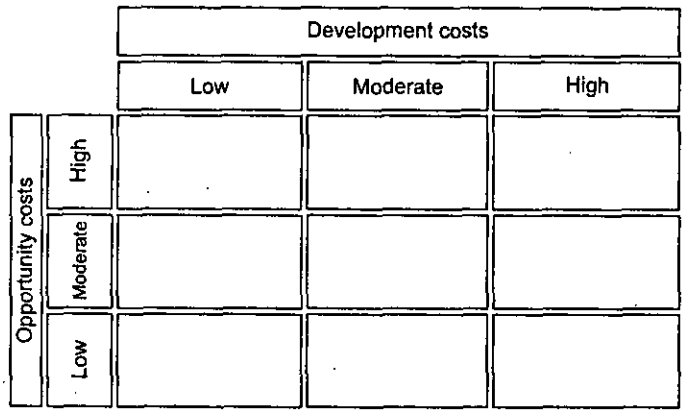

Fig. 7.15 Portfolio risk analysis model

Standard Portfolio Models

The Boston Consulting Group (BCG) Grid

One of the most famous portfolio models, developed by the BCG consulting firm, plots a company's products' relative market shares against the respective market growth rate (see Figure 7.18). The four diagram quadrants contain products that have been labeled as stars, cash cows, question marks, and dogs, which imply respective build, milk, or divest strategies, based on the two analyzed parameters. Henderson (1973) has proposed strategic implications of the BCG model, which are summarized in Table 7.7.

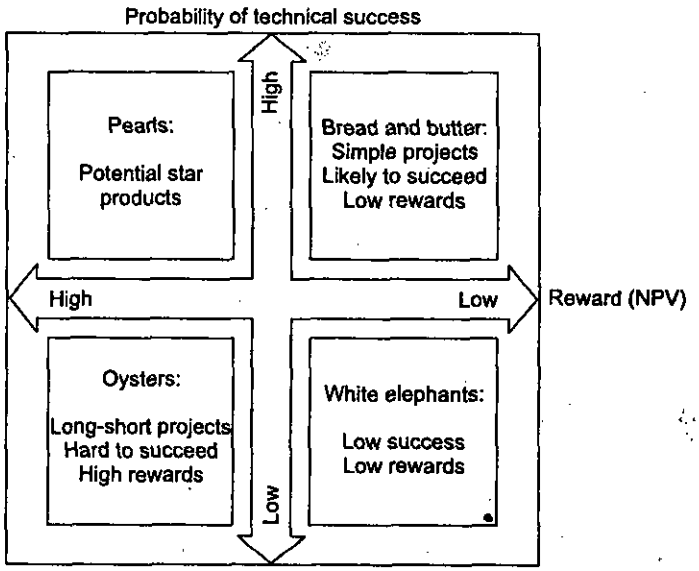

Fig. 7.16 The importance of a balanced portfolio (Arthur D. Little)

Although the BCG model has offered significant contributions to portfolio analysis, it has certain limitations. These include: (1) it is focused on only two criteria; (2) it assumes a portfolio is in cash balance; (3) it neglects the need to defend market share leaders; and (4) there is no assurance that resource allocation toward stars and question marks leads to increased market share.

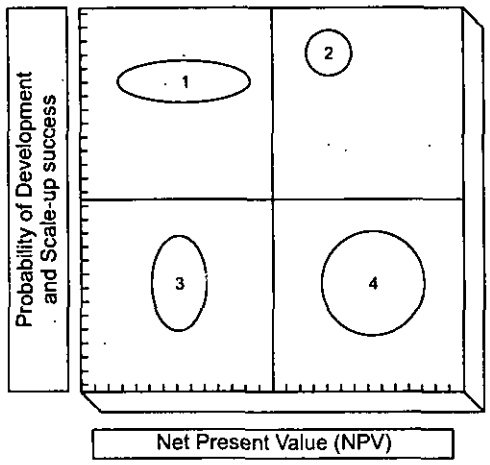

Fig. 7.17 *Risk-reward bubble diagram (3M)*

Table 7.7 Strategic Implications of the BCG Model

	Stars	**Cash Cows**
Status Strategy	High share/high growth market Build and invest	High share/low growth market Manage for profit and cash generation
	Question Marks	**Dogs**
Status Strategy	Low share/high growth market Pick the winners and drop the losers	Low share/low growth market Niche Harvest: cut costs or increase prices Withdraw: sell rights or delete
(Henderson, 1973)		

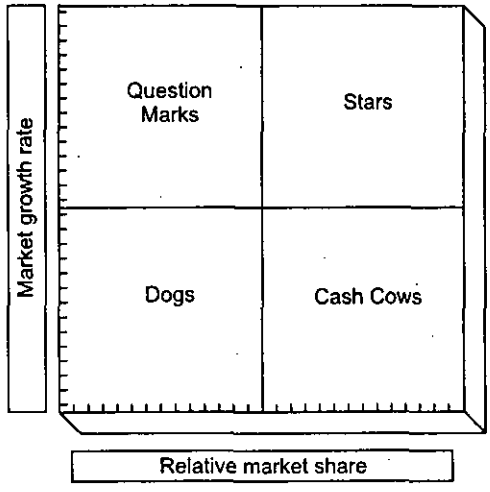

Fig. 7.18 The BCG portfolio model

The Market Attractiveness Model

The market attractiveness model (GE matrix) plots the various product portfolio members on a two-dimensional matrix of their business strengths against the industry attractiveness (see Figure 7.19). This model allows wide selection of measures relevant to the specific industry sector under study.

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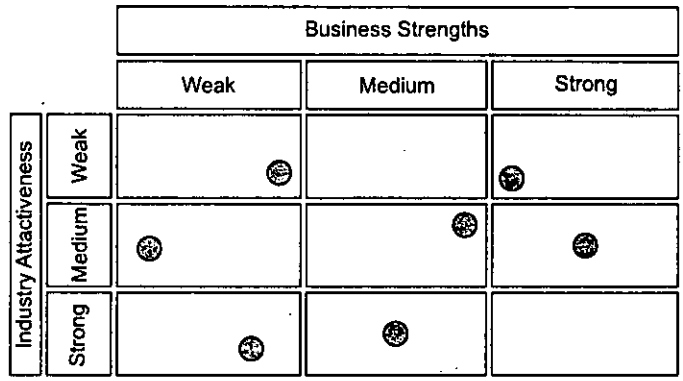
For example, a pharmaceutical market attractiveness model would use the following parameters of business strengths and industry attractiveness.



(Rausch 1982)

Fig. 7.19 The market attractiveness portfolio model (GE Matrix)

Business strengths: Relative product quality, market share, positioning, image, efficiency, market knowledge, management, marketing, distribution strengths, labor and government relations cost, technology, capacity, patent situation.

Industry attractiveness: Reimbursement mix and coverage, regulation, competitive intensity, price elasticity, buyers' power, substitution threats, technology utilization, market size, market growth, life cycle, cyclicality, stability, scale economies, learning curve.

The Directional Policy Matrix Model

The directional policy model (Shell matrix) plots the product portfolio members in a two-dimensional matrix of their competititve capabilities against the prospects for sector profitability (see Figure 7.20). Market segments (or therapeutic areas) of strong competitive capabilities and attractive segment profitability can be easily visualized by industry marketers.

The Strategic Condition Matrix

The strategic condition matrix plots a portfolio's products in various life cycle stages according to their actual or forecasted relative market share (see Figure 7.21).

The Product Value Map

A product value map (see Figure 7.22) plots a product's cost against its benefits. Product B has an average benefit to cost ratio, while product A has an exceptional value (high benefits and low costs).

Strategic Fit Analysis

A strategic fit analysis compares a project's characteristics to the company's strategic direction. As stated in unit, all of the company's departments and individual employees should be focused on the common strategic vision of the corporation. Thus, every potential new project needs to first display a strategic fit with the company's mission. Table 7.8 depicts a strategic fit analysis applicable to the pharmceutical industry.

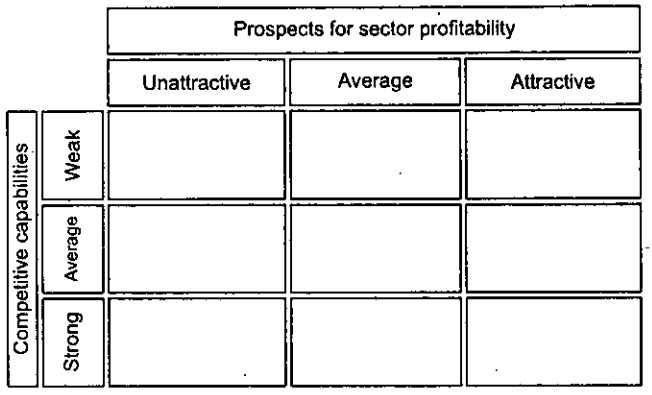


Fig. 7.20 The directional policy matrix (Shell matrix)

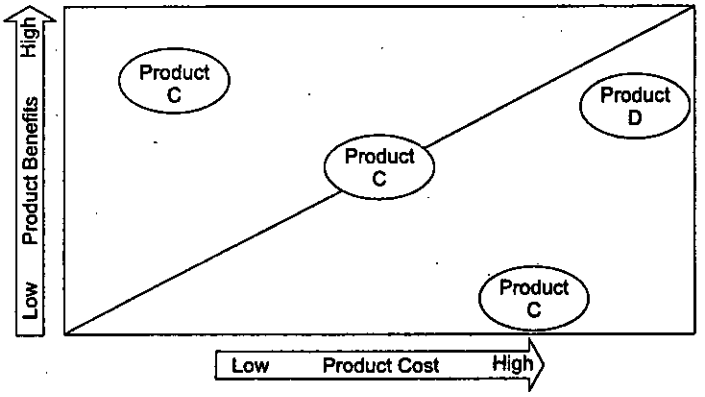


Fig. 7.22 Product value map

The Strategic Intent Model

The strategic intent diagram plots several portfolio projects in a two-dimensional matrix showing strategic intent across various market segments. The size of the diagram bubbles indicates the anticipated project costs (see Figure 7.23).

Portfolio Management

Portfolio management is the design, planning, implementation, and controlling of every company's activity that ensures the three principles of a successful portfolio (namely, value maximization, strategic fit, and balance). As Figure 7.24 shows, the activities of product management can be categorized as strategic or operational. The strategic aspect deals with the therapeutic category focus, selecting market segments with significant potential, allocating resources across various projects, assessing development risks, and comparing the project's fit with internal competencies. Project prioritization, progress monitoring, operational resource allocation, and licensing activities are some of the operational tasks of portfolio management.

Table 7.8 Strategic Fit Portfolio Analysis

	Strategic Value		Financial Value	
SBU	Cost-sharing or skill transfer translate into competitive advantage or added profitability	Fits with corporate strategic direction	Contributes significantly to corporate performance	Enhances corporate overall worth
A				
B				
C				

NOTES

Fig. 7.21 The Arthur D. Little strategic condition matrix as applied to the pharmaceutical industry

Life cycle stage	Competitive position creative market share				
	Dominant	Strong	Favorable	Tenable	Weak
Preclinical					
Phase I					
Phase II					
Phase III					
Launch					
Rapid growth					
Shake-out					
Mature					
Decline					
Withdrawn					

Wright, 1974

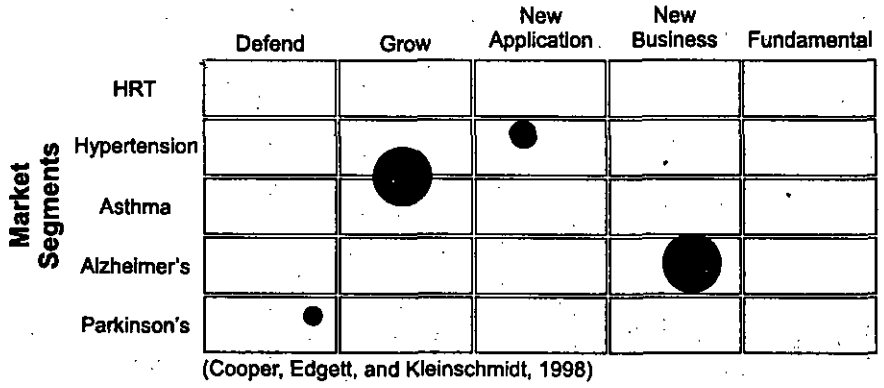


Fig. 7.23 The strategic intent diagram (Rohm and Haas diagram)

Portfolio Management Steps

There are five distinct portfolio management steps (see Figure 7.25). Entering a promising field, building a strong competitive presence, maintaining the captured market shares, managing the portfolio's life cycle, and evaluating the need for the portfolio's divestment are the main steps of portfolio management.

The Importance of a Balanced Portfolio

As previously mentioned, one of the goals of portfolio management is to achieve balance across therapeutic areas, geographical regions, short- and long-term growth, new and older products, and low- and high-risk, as well as each of the company's departments and functions versus the others (R&D versus marketing, and so on). Why is such a balance critical for the long-term growth and viability of the company? There are several reasons, such as risk minimization, efficient resource allocation, maximum return on investment, avoiding conflict, and adjusting to a dynamic market environment. Therefore, industry executives are forced to establish sound portfolio benchmarks, and must constantly evaluate the company's performance against these standards. Making frequent portfolio changes is standard practice in the health care environment, now and in the future.

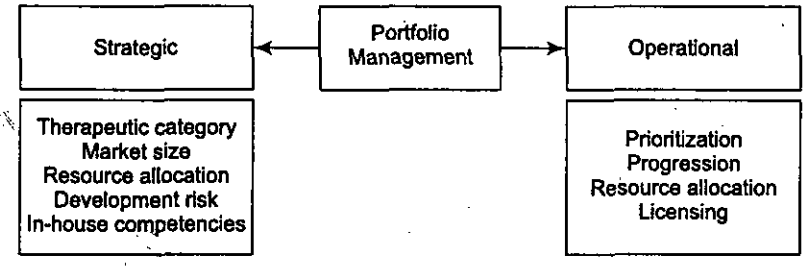


Fig. 7.24 Strategic and operational portfolio management

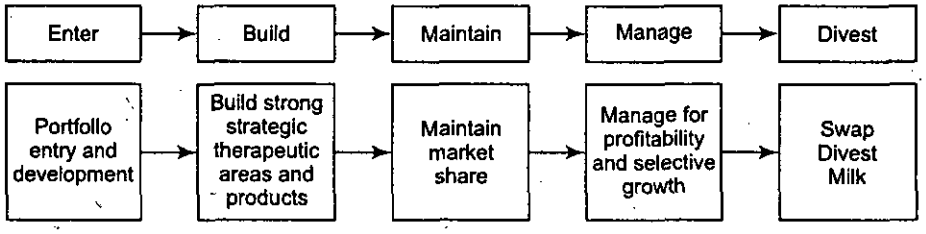


Fig. 7.25 Portfolio management steps

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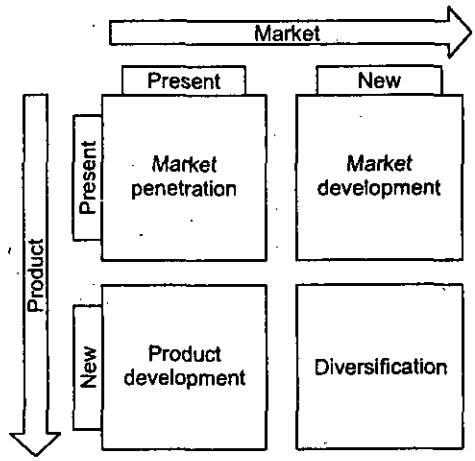
Portfolio strategies

There are multiple portfolio entry strategies available to industry marketers. Figure 7.26 shows some commonly used generic portfolio strategies.

Alternatively, portfolio strategies can be classified according to the number of products in a marketed portfolio or the number of market segments chosen (see Table 7.9).



(Ansoff, 1957)

Fig. 7.26 Ansof's growth matrix

Table 7.9 Typical Pharmaceutical Portfolio Strategies According to Number of Markets/Products

Single market	Parkinson's disease only
Multiple markets	Parkinson's and Alzheimer's diseases of the CNS
Total market	All CNS market segments
Single product	One brand, one formulation
Multiple products	Several brands, dosages strengths, formulations
System of products	Drugs, disposables, and diagnostics in a disease "package"

Resource Allocation

Resource allocation is the cornerstone of product portfolio viability and balance. Some of the typical allocation methods used divide resources according to familiarity indices, geographical areas, product lines, project types, strategic goals, technology platforms, and therapeutic categories. The choice of any of these methods is influenced by the resource intensity, and customer, market, and competitor characteristics, as well as a company's preferred practices.

SUMMARY

- The right conferred by the patent grant extends only throughout the United States and its territories and possessions."
- At some point in a product's life cycle every product reaches maturity, that is, a phase characterized by a stabilized sales performance, with low costs and high profits.
- Eventually, the product enters its decline phase, with decreasing sales, rising fixed costs, and an eroding profitability.

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- After a pharmaceutical product has reached its decline phase, the decreased profitability may necessitate the products withdrawal from the marketplace.
- A product's diffusion process is based on its acceptance by the population. It depends on product characteristics such as relative advantage, complexity, compatibility, communicability, trialability, risk, and so on.
- A product's life cycle management requires not only good marketing and sales strategy planning, or changes in its distribution or pricing.
- A product portfolio is all marketed products and all products currently in R&D that a pharmaceutical company is involved with on a global scale.
- Business strengths: Relative product quality, market share, positioning, image, efficiency, market knowledge, management, marketing, distribution strengths, labor and government relations* cost, technology, capacity, patent situation.
- A strategic fit analysis compares a projects characteristics to the company's strategic direction.
- Resource allocation is the cornerstone of product portfolio viability and balance. Some of the typical allocation methods used divide resources according to familiarity indices, geographical areas, product lines, project types, strategic goals, technology platforms, and therapeutic categories.

REVIEW QUESTIONS

1. Discuss new product life cycle in detail.
2. Discuss the diffusion and adoption in detail.
3. Discuss the portfolio management.

FURTHER READINGS

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UNIT VIII: COMPETITIVE STRATEGIES

NOTES

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- know what is the competitive strategy?
- describe the structures of competitive market.
- know about the industry life cycle stage in competitive strategy.
- explain the drivers of genetic growth.

8.1 INTRODUCTION

In 1994, patented prescription medicines accounted for only 3.3 percent of health care expenditures in Canada. PMAC 1998

Competition in the pharmaceutical industry has been steadily intensifying over the last decades. Currently, there are very few market niches (among hundreds of distinct therapeutic areas) that have remained relatively protected from competition or are competition-free. The vast majority of therapeutic segments and national markets are occupied by several strong competitors who fiercely compete with each other for market share. Additionally, the intensifying regulatory environment, coupled with the lack of innovation and the shortening of product life cycles, has left the competing players with an even more challenging marketplace. This is the operating environment for most industry marketers, who are becoming more

focused on competition in their market segments. This unit discusses the essence of competitive strategy and the tools available for industry players situated in different market shares and with different product life cycle stages.

8.2 WHAT IS A COMPETITIVE STRATEGY?

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A competitive strategy is the design, planning, and implementation of all a company's activities designed to combat the competition. This strategy's concepts are closely related to the product and marketing strategy concepts discussed in earlier units. Competitive strategy influences product and marketing strategies in such a way that the company will win a *competitive advantage*. Figure 8.1 illustrates competitive strategy, that is, the company develops programs designed to satisfy customer needs, which are then evaluated by the customers, producing a perception of product value. If the product's perceived value is superior to competitors' the product will gain a competitive advantage—the main element of the product's commercial success.

Therefore, gaining a competitive advantage is the essence of every competitive strategy. Furthermore, the competitive advantage must be sustainable over a significant period of time and must not be easily copied and marketed by imitators. Sustaining a competitive advantage depends on resources and capabilities that are durable, non-transferable, and not able to be replicated by other companies. Nevertheless, sustainable competitive advantages (SCAs) erode due to competitive attacks or market evolution. The elements required for gaining an SCA are shown in Figure 8.2. They include superior company resources, superior market position, and superior knowledge and relationships in the marketplace.

Which of the product characteristics or benefits can serve as bases for sustainable competitive advantage? The following is only a small list of potential product differentiation: value, reputation, image, location, access, speed, people, circumstance, size, low cost, legal protection, and competitive weakness. Why is a sustainable competitive advantage so important? Because it ultimately contributes to these two types of company gains: (1) customer attraction and (2) defending against competitors. Both of these gains lead the company to higher profits (see Figure 8.3).

Let us now focus on the competitive strategy framework (Figure 8.4). A company possesses certain strategic assets and strategic skills. Leveraging its assets (such as its product brands and customer base) offers the company one or more alternative bases for differentiation (value, cost, or segment focus). It also influences the competitive strategy the company may follow when holding different relative market share positions. On the other hand, the leveraging of strategic skills (such as enabling R&D technologies or marketing skills) will offer certain competitive alternatives over the industry's life cycle or may influence the choice of its commercial strategies. Before studying the wide spectrum of available competitive strategy possibilities, first consider the various types of competitive market structures.

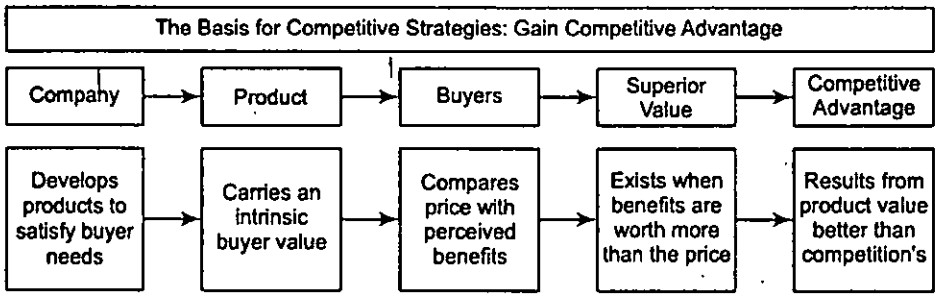

Fig. 8.1 The basis for competitive strategies

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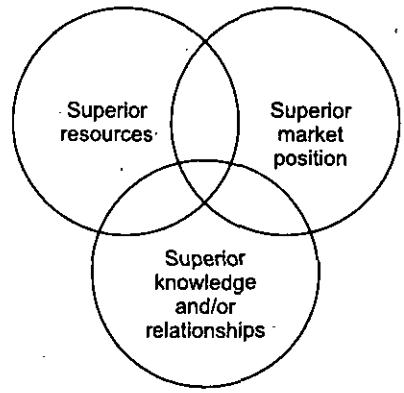

Fig. 8.2 Elements of SCA

8.3 COMPETITIVE MARKET STRUCTURES

Different therapeutic or geographical areas can present one of four potential competitive market structures. They are pure competition, monopolistic competition (where the sellers mandate product prices in a low regulation market), oligopoly (with few sellers), and monopoly Table 8.1 summarizes the number and power of sellers, differentiation, price elasticity, and government regulation present.

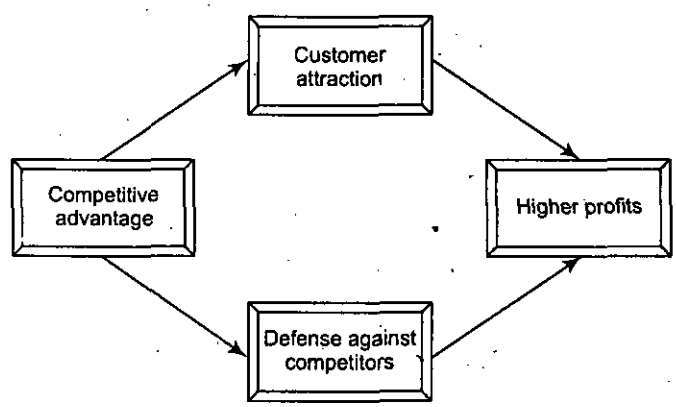

Fig. 8.3 The benefits of a competitive advantage

Table 8.1 Characteristics of Competitive Market Structures

	Pure Competition	Monopolistic Competition	Oligopoly	Monopoly
Buyers	Many	Many	Many	Many
Sellers	Many	Many	Few	One
Differentiation	Yes	Yes	Difficult	No
Price setter	Market	Sellers	Sellers	Sellers
Price elasticity	Low	High	High	High
Regulation	Low	Low	Significant	High

8.4 COMPETITIVE FORCES

Porter (1985) created the widely accepted model of the five competitive forces acting within every industry. These forces include internal rivalry, the threat of new entrants, suppliers' bargaining power, buyers' bargaining power, and the threat of substitute products (mainly generics in the pharmaceutical market). Adapting this model to the pharmaceutical industry, several experts have added a sixth force—the intense regulation of the industry (see Figure 8.5).

Table 8.2 summarizes the main characteristics and influencing factors of the pharmaceutical industry's competitive setting.

Internal Rivalry

The pharmaceutical industry's rivalry is growing due to globalization, elimination of trade barriers, innovation and technology advances from small- and medium-sized firms, and communication advances that allow easier coordination across foreign markets. Some of the strategic alternatives available to the industry members are value management, science and technology, marketing power, and customer service.

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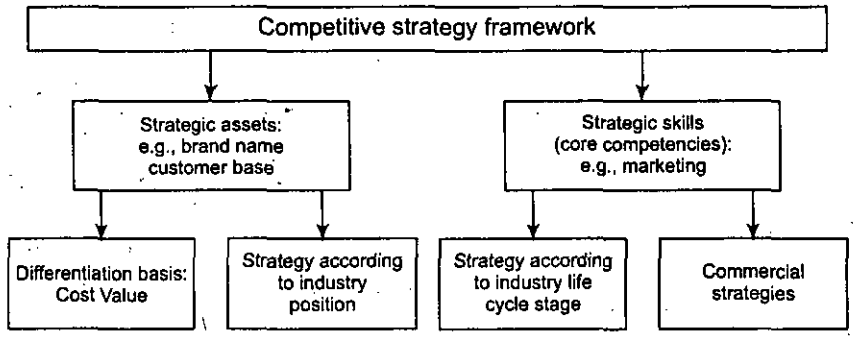

Fig. 8.4 Competitive strategy framework

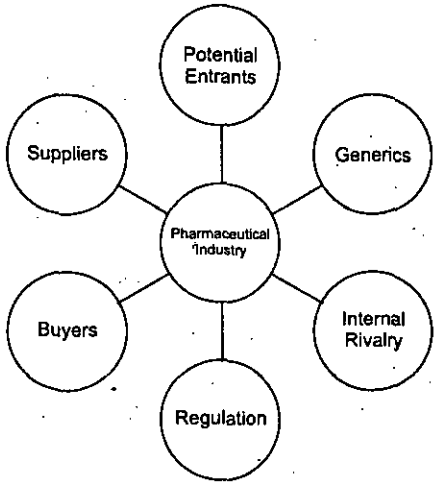

Fig. 8.5 Pharmaceutical industry's competitive forces

8.5 GENERIC COMPETITIVE STRATEGIES ACCORDING TO WEAPON USED

Figure 8.6 depicts a wide spectrum of competitive strategy alternatives.

Porter (1980) has proposed three main strategic alternatives, namely, differentiation, cost leadership, and focus. In this model, the intensity of cost and differentiation focus may vary, as shown on the two-dimensional matrix of competitive scope and competitive advantage (Figure 8.7).

This book focuses on six potential competitive strategies commonly used in the pharmaceutical industry. They are (1) best value for the money, (2) low cost, (3) broad differentiation, (4) focus based on cost, (5) focus based on differentiation, and (6) vertical integration. The characteristics and respective examples of these strategies are shown in Table 8.3.

Table 8.2 Competitive Forces within the Pharmaceutical Industry (continued)

#	Force	Threat	Influencing Factors	Characteristics
4.	Buyers	Bargaining power	Concentration of buyers	They are demanding reduced prices, improved quality, and added services.
			Alternative sellers	
			Level of purchase cost for the buyer	Individual consumers (patients) and their families and advocacy groups have changing characteristics (*e.g.*, due to aging), increased needs, and a strong voice.
			Backward integration	
			Product standardization	
			Switching costs	Organizational consumers (primary providers and HMOs) are cost-minded, outcomes-driven, and have huge bargaining power.
			Profit margins	
			Buyers' concerns about quality	
			Buyers' access to information	
5.	Generics	Threat of substitution	Better price/performance compared to name brands	Imposes ceiling on industry's profitability.
			Competition among generic manufacturers	Limits price flexibility.
6.	Authorities	Regulation/ Intervention	Political situation	Stricter worldwide regulatory environment due to cost-containment measures, political rhetoric, and a negative industry image.
			Economic situation	
			International collaborations/guidelines/restrictions	

(Adapted from Porter, 1979)

Table 8.2 Competitive Forces within the Pharmaceutical Industry (continued)

#	Force	Threat	Influencing Factors	Characteristics
1.	Pharmaceutical Industry	Internal rivalry	Several firms equal in size and capability Slow market growth driving market share wars Low profit margins Product standardization Switching costs Exit barriers	Weapons: price, quality, innovation, patents, warranties, distribution channels, promotional campaigns. Trend: rivalry will intensify due to: untapped potential of world's untreated population, increasing globalization, and diminishing trade barriers and open-door investment policies.
2.	Potential Entrants	Threat of entry	Economies of scale Access to specialized technology Product differentiation, customer loyalty Capital requirements Switching costs for buyers Ease of access to distribution channels Existing preferential agreements Regulation Expected retaliation Experience curve barriers	High entry barriers have inhibited the entry of new players into the field. Biggest threat comes from associated industries, through forward (chemical industry) or backward (distributors) integration.
3.	Suppliers	Bargaining power	Supplier concentration Forward integration Industry importance as a customer Product differentiation	They have a bigger impact when their supplies are responsible for large proportion of the product's cost, are essential to the production process, and significantly affect quality. Have impact through price increases. Today's focus: value-added partners and value chain analysis.

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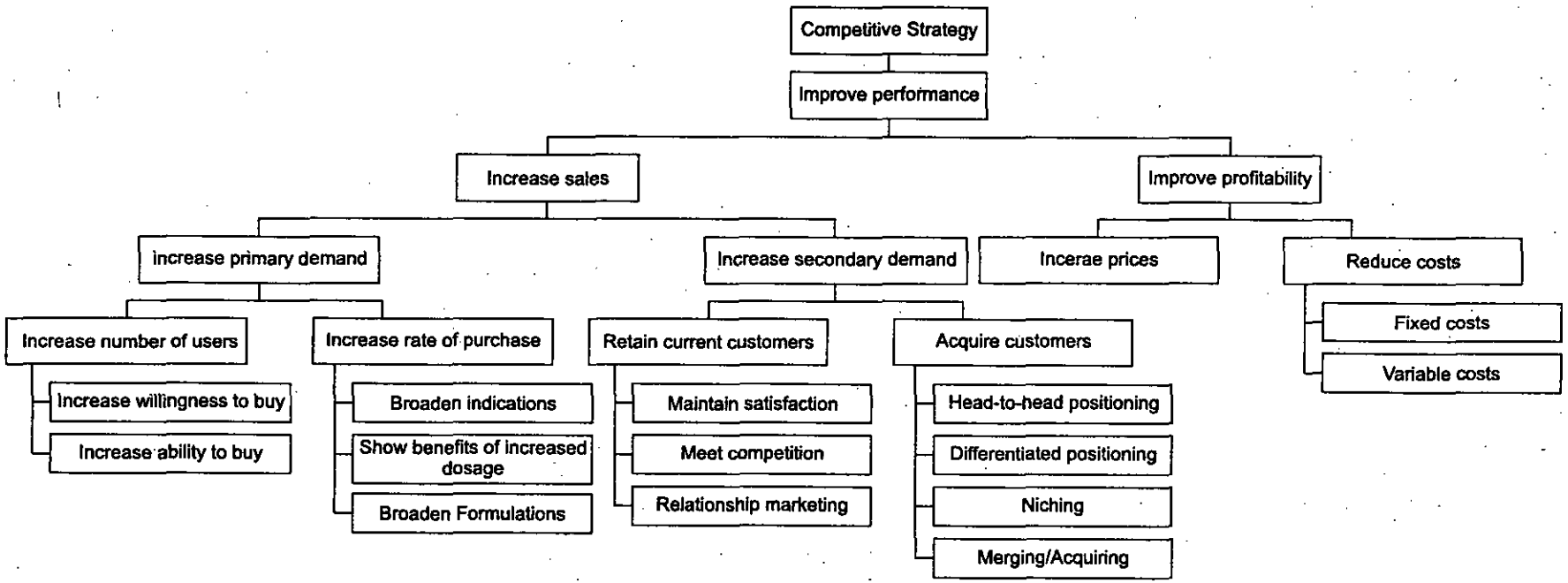

Fig. 8.6 Strategic focus

8.6 GENERIC COMPETITIVE STRATEGIES ACCORDING TO INDUSTRY POSITION

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The competitive strategy a company should implement against companies of varying sizes and capabilities is strongly influenced by its relative market share position. The potential strategic options are illustrated in Figure 8.8 and are presented in detail.

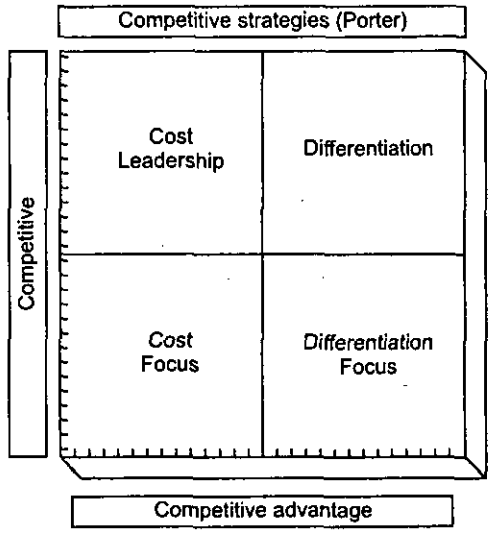

Fig. 8.7 Competitive strategies

Table 8.3 Generic Competitive Strategies According to Weapon Used

#	Strategy	Description	Prerequisites
1.	Best value for the money	Improve quality and reduce costs	Stringent quality control and cost analysis reduction.
2.	Cost leadership	Lower the price Increase the profit margin	Mind the costs across the organization, create no-thrill facilities, be thrifty on employee compensation, improve production yield, monitor purchasing activities, re-engineer/diversify under-performing activities.
3.	Differentiation	Therapeutic categories, products, formulations, packaging, customer service	Advanced technology or customer service (core competencies).
4.	Focus based on cost	Target niche segments	Beat the competitors in this segment on costs. Segments must be large enough to be profitable, growing, not crucial to competitors, manageable with own resources, and defensible.
5.	Focus based on differentiation	Target niche segments	Beat the competitors in this segment on providing something different.
6.	Vertical integration	Backward (supply side) Forward (end-user side)	Large volume to cover efficiencies of scale, technological know-how, large capital requirements.

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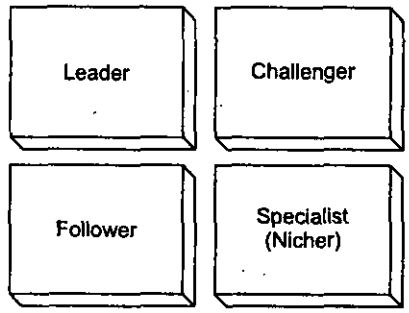

(Kotler, 1994)

Fig. 8.8 Competitive strategies in the pharmaceutical industry

Leader

A market leader is the company currently holding the highest market share, even though this market share may not be dominating. For example, there exist different market segments where the biggest competitor may hold a 60 percent market share, while in other, fiercely contested, fragmented markets, the segment leader may hold a 20 percent share. The leader tends to dictate some market characteristics such as prices, promotional intensity, distribution channels, and sales force size. Smaller contestants try to follow these benchmarks when challenging the leader's position.

A pharmaceutical company's market share leadership refers to the national pharmaceutical market as a whole, to leadership within a therapeutic area (such as CNS), to a disease area (such as psychosis), or to therapeutic alternatives of a single formulation type. The competitive strategic objectives of a market leader follow.

Expand the Market

- **Attract new users** (market penetration, market development). Example: A public awareness campaign driving postmenopausal women to seek HRT therapy.
- **Discover new uses** (market development). Example: A new clinical trial showing beneficial effects in a new indication.
- **Encourage more usage** (market penetration). Example: New clinical data showing increased clinical benefits at a higher dosage.

Expand Market Share

- **Increase satisfaction.**
- **Increase loyalty.**
- **Increase repeat purchase** (product modification, market modification, marketing mix modification). Examples: New dosage strengths and formulations; increasing patients' medication compliance; and intensifying advertising or medical detailing.

Defend Market Share

- **Fixed position defense** (defending present position, a potentially risky approach). Example: Marketing a monotherapy while new competitors market combination treatments.

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- **Flanking defense** (limiting competitor possibilities to attack main product). Example: Ensuring long-term contracts with organizational buyers.
- **Preemptive defense** (launching a counterattack before being attacked). Example: A massive sales force expansion, price cut, or new product launching.
- **Counter-offensive defense** (the strategic choice of market leaders when being attacked). Example: Launching a product similar to the competitors' new products, attacking their products on their weak efficacy, or aggressively attacking their cash cow.
- **Mobile defense** (expanding the product line width). Example: If intravenous formulation is attacked, reply with launching a convenient new oral formulation.
- **Contraction defense** (consolidating market segments). Example: Discontinuing the anti-asthma product line and focusing on the cardiovascular line.
- **Erecting barriers to entry.** Examples: Increase promotional spending, increase sales force spending, increase manufacturing capacity, fill product line, block access to distribution channels, strengthen channel relationships, block access to suppliers, raise prescribers' switching costs (via training time or product-device bundling), fill clinical trial centers with own program, increase economies of scale, acquire rights to alternative technologies, protect internal know-how, convert OLs into own product champions, influence regulators via lobbying, negotiate long-term exclusivity contracts, signal commitment to defend, signal high barriers to entry, and lower profit expectations.
- Despite the wide possibilities, most experts have expressed the view that investing in R&D is the best market share-defending strategy of pharmaceutical market leaders.

Challenger

A challenger is a competitor with a smaller market share, but similar resources and capabilities. If other product priorities or available resources allow the challenge of the market leader, then a challengers strategic objective is to gain market share by attacking the target. The tactics used are the following:

- **Frontal attack** (if weak brand preference, and strong challenger resources). Example: Offer similar new formulation at better price.
- **Leapfrog** (offer better, differentiated product). Example: Launch a previously unavailable treatment combination or administration device.
- **Flank** (go after segment with unmet needs). Example: While the leader is targeting the entire market, go for the elderly segment.
- **Encircle** (go after small untapped segments). Example: Target the pediatric segment.
- **Guerilla** (sporadic attacks on geographic or therapeutic market weak points, through sales promotions, local advertising blitzes, or legal action). Example: Maintain competitive intensity in the U.S. but aggressively pursue the Latin American market.

Follower

A market follower is a competitor who either does not have the resources to attack the leader (but remains innovative and competitive), or someone who is merely focused on survival. The competitive strategies available to followers are:

- **Clone.** Example: A generic pharmaceuticals manufacturer focusing on cost leadership.
- **Imitate.** Example: A manufacturer offering identical strengths and formulations.
- **Adapt.** Example: A manufacturer offering a slightly improved injection device.

Specialist (Nicher)

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A market specialist focuses on a specific, small market segment chosen on the basis of cost or innovation differentiation. The competitive strategy, then, is **choosing a niche and differentiating within.** The advantages of this strategy include: (*a*) reduced rivalry; (*b*) ability to compete with limited resources; (*c*) reduced pressure from substitutes; (*d*) perception by niche customers as affording superiority because of focus; and (*e*) mass customization. However, a specialist strategy presents the following pitfalls: (*a*) attracting larger competitors and (*b*) dependence on a single market.

8.7 GENERIC COMPETITIVE STRATEGIES ACCORDING TO INDUSTRY'S LIFE CYCLE STAGE

Generic competitive strategies according to the industry's life cycle stage are described in Table 8.4. Essentially, these are strategies that have been discussed for market leaders, challengers, followers, and specialists/nichers; however, their selection is influenced by the product's life cycle stage.

Generic Commercial Strategies

In addition to the competitive strategies described in Table 8.4, some of the available generic commercial strategies can be classified as shown in Figure 8.9. These include external growth (acquired products), internal growth (products coming from the internal pipeline), and various commercial collaboration alternatives such as product licensing, comarketing, copromotion, or renting an external sales force for increased promotion.

8.8 MARKET SIGNALING

Often a competitor does not wish to get involved in a costly defensive batde because of other product priorities. The competitor may decide to use a technique called *market signaling*. This refers to issuing market messages, or "signals," aimed at current competitors or potential new entrants, who disclose their own intentions in case of an attack. Typical reasons for using market signaling include: (1) to gain something bigger than the anticipated costs; (2) to warn the competition; and (3) to define competitive standards of conduct.

A market signal may discourage competitors from imitating a new technology, distribution system, pricing structure, or manufacturing capacity. Examples include: "We can undercut any competitive price reductions"; "We are committed to the region/therapeutic area/product line"; "We do not seek to merge, but are constantly looking for corporate alliances"; "We believe there is a place in the market for generic equivalents, but any penetration over 10 percent will be met by our swift action"; and "We consider our product reimbursement important, but do not plan to leave the market if reimbursement does not materialize."

However, market signaling has some associated risks; it gives away information, it causes product line cannibalization, it affects firm's reputation, and it causes antitrust litigation. Therefore, caution and weighing of all competitive strategy alternatives should be employed at every level.

Table 8.4 Generic Competitive Strategies According to Industry's Life Cycle Stage

#	Stage	Strategies
1.	Emerging	Capture new customers.
		Capture new uses.
		Capture new geographical regions.
2.	Maturing	Limit the product line.
		Reduce costs.
		Purchase competitors exiting the industry.
		Expand to foreign markets.
3.	Declining	Focus on specific segments.
		Outsource.
		Re-engineer.
		Consolidate units.
		Diversify units.

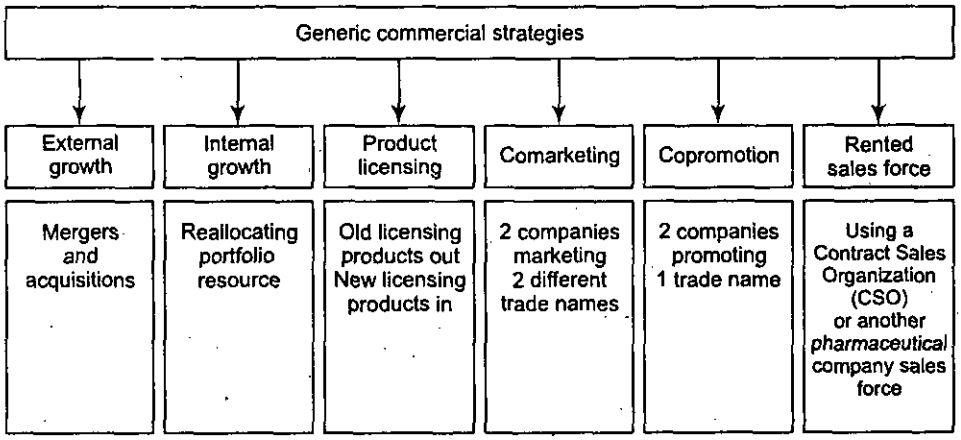

Fig. 8.9 Generic commercial strategies

8.9 ETHICAL PHARMACEUTICALS VS. GENERICS

One of the hottest industry issues in the 1990s was the increasing industry market share held by generic pharmaceuticals. This clearly represents the threat of substitutes Porter included in his model of competitive forces. In order to evaluate the magnitude of this competitive battle and discuss the competitive strategy choices of the two sides—ethical and generics manufacturers—we will discuss the reasoning behind the phenomenon of therapeutic substitution, the drivers of generic growth, and the most commonly used antigeneric and generic strategies.

Why Substitution?

Therapeutic substitution refers to a patient's course of treatment, other than the prescribed therapeutic treatment that may or may not be pharmacologic, effective, or widely accepted. Who is responsible for therapeutic substitution? The

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responsible party may be a physician who is copying the patients original prescription for therapy continuation or is involved in determining if the initial medication belongs to a national or institutional list of "approved" drugs (formulary). The responsible party often may be an institutional pharmacist also charged with checking formulary conformity of the prescribed choice or a retail pharmacist who elects to substitute the prescribed medication with one she or he stocks in the pharmacy. It also can be the patient choosing to selfmedicate with an OTC alternative. Furthermore, it can be the patients family members who may not believe in the prescribed drugs efficacy or safety characteristics.

Types of Substitution

There are various types of substitution. A prescribed drug may be substituted by **another original medication** (for example, other therapeutic class, other brand within class, and other formulation within brand), or **a generic pharmaceutical** (for example, generic equivalent brand, other therapeutic class, other brand within class, and other formulation within brand), or even **a nonpharmacologic treatment** (for example, diet, physical exercise, psychotherapy, alcohol, naturopathy, religion, acupuncture, surgery, hypnosis, chiropractic, massage therapy, and homeopathic interventions). The results of therapeutic substitution may be of a different efficacy or safety compared to the original or even may be dangerous for the patient s life. The focus of this chapter is on only one of the many substitution alternatives—that of an innovative, or "ethical" pharmaceutical product (referring to the significant R&D effort that went into its discovery) by a "generic" equivalent (a product with equivalent efficacy and bioavailability of the original, which, however, was developed and approved in an abbreviated manner). This chapter attempts to objectively present the arguments of both sides, explaining the prerequisites of competitors success and the strategic choices of both sides.

8.10 ETHICAL VS. GENERIC INDUSTRY

Figure 8.10 shows the three broad classifications of pharmaceutical products, namely, ethical, generics, and OTC. Ethical pharmaceuticals can be further classified into innovative or commodities (according to their degree of innovation), while generic pharmaceuticals can be prescription or OTC.

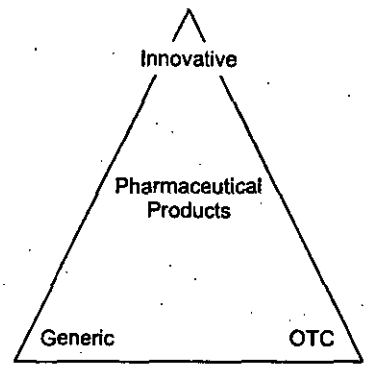

Fig. 8.10 Pharmaceutical product classes

Table 8.5 shows the main differences between ethical innovative and commodity products, and generics. One of the main points illustrated in this table is that innovative pharmaceuticals are relatively higher priced, due to their high R&D

costs, while generics are usually lower priced, but also can be differentiated in other areas, as shown later in this unit.

As a measure of their respective market penetrations, Table 8.6 lists the top twenty brand and the top twenty generic pharmaceuticals in the United States prescription market in 1998.

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Table 8.5 Comparison of Portfolio Characteristics of Innovative, Commodities, and Generic Pharmaceuticals

Variable	Innovative	Commodities	Generics
Competition	Low	High	High
Competitive advantage	High	Moderate	Low
Development costs	High	Moderate	Low
Initial investment	High	Moderate	Low
Manufacturing costs	High	Low	Low
Market growth	High	Stable	Low
Market penetration	Fast	Moderate	Moderate
Price	High	Moderate	Low
Price competition	Low	High	High
Profitability	High	Low	Low
Promotional cost	Low	High	Low
Risk	High	Low	Low
Skills required	High	Moderate	Low
Target customers	OLs	Prescribers	Administrators, Pharmacists

Table 8.6 Top 20 Brand and Top 20 Generic Drug Sales in the United States

Brands			Generics	
Rank	Trade Name	Total Rx Retail	Trade Name	Total Generic Retail
		Unit Sales		Unit Sales
1.	Premarin Tabs	41,282,000	Hydrocodone/APAP	51,587,000
2.	Synthroid	34,907,000	Trimox	29,928,000
3.	Prilosec	23,981,000	Furosemide Oral	27,151,000
4.	Prozac	23,860,000	Atenolol	27,143,000
5.	Lipitor	22,607,000	Cephalexin	24,996,000
6.	Norvasc	21,067,000	Albuterol Aerosol	24,344,000
7.	Claritin	20,292,000	Propoxyphene-N/APAP	24,220,000
8.	Lanoxin	19,922,000	Amoxicillin	23,898,000
9.	Zoloft:	19,364,000	Acetaminophen w/Cod.	23,232,000
10.	Paxil	17,773,000	Alprazolam	22,123,000
11.	Prempro	17,140,000	Ibuprofen	21,785,000
12.	Zestril	16,731,000	Triamterene w/HCTZ	20,007,000
13.	Augmentin	16,375,000	Hydrochloro thiazide	17,089,000
14.	Vasotec	16,158,000	Trimethoprim/Sulfa	16,955,000

15.	Glucophage	16,042,000	Prednisone Oral	16,169,000
16.	Zocor	15,950,000	Lorazepam	15,913,000
17.	Zithromax Z-Pak	15,239,000	Amitriptyline	15,374,000
18.	Coumadin Tabs	14,579,000	Glyburide	13,016,000
19.	Cipro	12,655,000	Ranitidine HCl	12,694,000
20.	Caldizem CD	12,159,000	Metoprolol Tartrate	12,336,000

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8.11 MARKET EROSION BY GENERICS

Generic pharmaceuticals are products with the same bioequivalence and bioavailability as their original counterparts. As Figure 8.11 shows, they also possess good quality and a relatively lower price than their original competitors.

How are these products developed then? Figure 8.12 illustrates the typical steps involved in generic drug development. The patent expiration of a successful name brand product is usually the signal to initiate a generic drug development. In some countries, this development can only start after the actual expiration of the original's patent. However, in others, the development process can actually start at a much earlier point, with the marketing authorization awarded to the generic only after the original patent expires. The second scenario is obviously beneficial to generic development and is a strong opposition point between innovative pharmaceutical manufacturers and the governments that allow it.

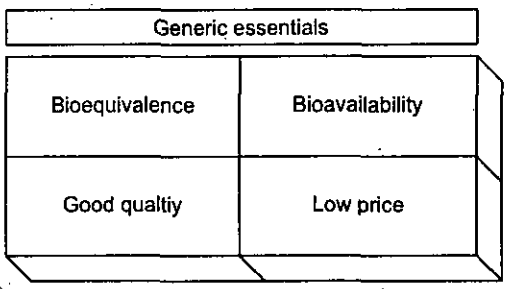

Fig. 8.11 Essentials for introducing a generic pharmaceutical

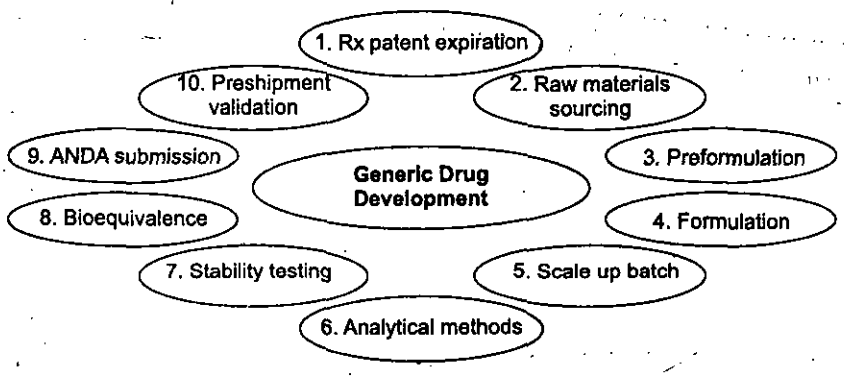

Fig. 8.12 Steps in generic drug development

8.12 DRIVERS OF GENERIC GROWTH

What, then, are some of the main reasons for the gradually increasing market penetration by generic pharmaceuticals? These include: aging population consuming more medicines on limited finances; managed care growth; government

factors (abbreviated regulatory approval policies, pricing policies, reimbursement policies, substitution policies); price competition; value-added benefits (formulation, packaging, labeling); high patient copayment; influencers (physicians, pharmacists, health care payers, patient bodies); parallel importing; slow rate of ethical R&D; patent expiration of major ethical blockbusters; and ethical industry's entry into the generics field.

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In the United States, the Drug Price Competition and Patent Term Restoration Act of 1984 (Waxman-Hatch Act) stated that generic drug manufacturers only have to show that the generic product, containing the same active ingredient, is bioequivalent to the branded product, thus reducing their introduction time by six years.

One of the important influencing factors of generic growth is the governmental fostering of generics in several markets for reasons of cost-containment. This increases the competition level among the pharmaceutical industry players and establishes a true managed care environment, where all stakeholders involved are both fiscally responsible and accountable for their health care decisions. Figure 8.13 illustrates the main government measures supporting the use of generics today.

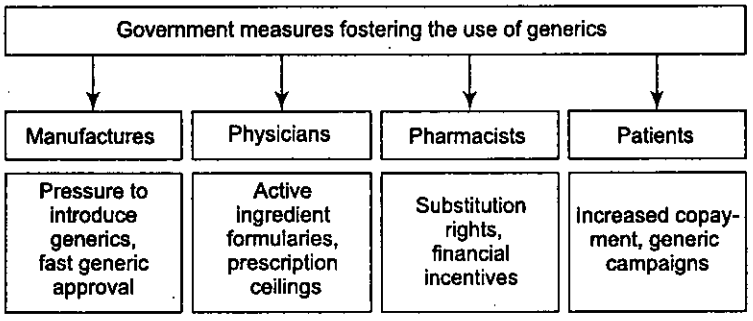

Fig. 8.13 Government measures fostering the use of generics

8.13 GENERICS STRATEGIES

The typical competitive strategies used by generics manufacturers today are actually a case study of Porter's model of competitive strategies. The tools against innovative manufacturers are cost leadership, differentiation, or focus. Indeed, as Table 8.7 describes, manufacturers employ a variety of tactics in gaining a competitive advantage. Obviously their competitive approaches are working because their market shares in various national markets are growing.

Nevertheless, their marketing efforts are not without obstacles. Generic products often have to face a variety of negative customer perceptions, government restrictions, or image problems that are obstacles to their continuing growth. Table 8.8 lists some problems that are challenging the generics industry to become even more customerfocused and innovative.

8.14 ANTIGENERIC STRATEGIES

Faced with increasing regulatory restrictions and a strong competition within the industry and from generics manufacturers, innovative manufacturers are greatly challenged. They see their market shares eroding and that their long-term profitability and survival are in danger. Under these circumstances, they are trying

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to defend against generic competition by one of the four strategies described in Figure 8.14. Erecting higher entry barriers, hurrying to develop replacement products, extending their product lines, or entering into the generic arena are some of their approaches. Another method used is aggressive branding. Some of the benefits of a pharmaceutical brand are shown in Table 8.9.

Table 8.7 Generics Strategies

#	Strategy	Factor
1.	*Cost leadership*	*Limited R&D requirements.*
		Minimum regulatory resource and time requirements.
		Global sourcing of active ingredients.
		Manufacturing economies of scale.
2.	Differentiation	Galenic developments.
		Sophisticated distribution networks.
3.	Focus	Specific therapeutic areas.
		Specific national markets.
		No need to be global to survive.

Table 8.8 Obstacles Generic Products Have to Overcome

#	Stakeholder	Description
1.	Government	Mandatory lower prices than originals squeeze profit margins.
		Antisubstitution laws or barriers.
		Barriers to develop and register before patent expiration of originals.
		Brand-name patent extending regulation (e.g., the General Agreement on Tariffs and Trade [GATT] effective since 1995).
2.	Physicians	Low price is key to patients, not prescribers.
		Doubt about therapeutic merit.
		Political pressures to quote original products in publications/ presentations.
		Reduced sponsorships and services compared to ethical manufacturers.
3.	Pharmacists	Lower prices mean lower profits.
		May not have substitution rights.
4.	Patients	When reimbursement is full, price is not an issue.
		Ethical pharmaceuticals possess high brand image.
5.	*Segment rivalry*	Price erosion.
		Extreme market comodification (fifty generic equivalents may coexist).
		Competition for pharmacy space.
6.	Segment image	Negative image of imitators.
		Isolated counterfeiting cases have tarnished industry image.

The following list describes some of the antigeneric strategies used by the innovative pharmaceutical industry players (see also Figure 8.14). The innovative industry players should realize that strong environmental factors influence the success of either of the two competitive forces. Furthermore, they should realize that adapting to the new marketplace realities, continuing to provide innovative products with distinct competitive advantage, and packaging strong pharmacoeconomic arguments and disease management programs with new product offerings will give them a strong push forward in the fierce competitive race.

Erect entry barriers: political lobbying, regulatory lobbying, OL lobbying, patent extension/defense, bioequivalence challenge, out of court agreement, establish

differential advantage, aggressive branding, aggressive product line "gap" filling, product bundling, lower price.

Replacement product: single isomer, active metabolite, NCE.

Table 8.9 Benefits of a Pharmaceutical Innovative Brand

For Buyers	For Sellers	For Society
Quality	Easier to access/administer	Higher and consistent quality
Efficiency	Protects from copying	Increases innovation
Draws attention to new products	Builds loyalty and profits	Increases customer efficiency
	Assists segmenting	

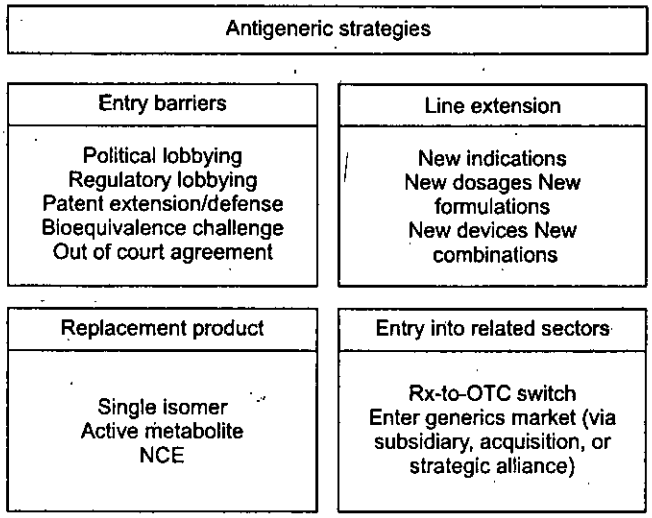

Fig. 8.14 Common antigeneric strategies

Line extension: new indications, new dosages, new formulations, new devices, new combinations.

Entry into related sectors: Rx-to-OTC switch, launch "ultragenerics," or enter generics market (via subsidiary, acquisition, or strategic alliance).

SUMMARY

- A competitive strategy is the design, planning, and implementation of all a company's activities designed to combat the competition.
- A market leader is the company currently holding the highest market share, even though this market share may not be dominating.
- A challenger is a competitor with a smaller market share, but similar resources and capabilities.
- A market specialist focuses on a specific, small market segment chosen on the basis of cost or innovation differentiation. The competitive strategy, then, is choosing a niche and differentiating within.
- Therapeutic substitution refers to a patient's course of treatment, other than the prescribed therapeutic treatment that may or may not be pharmacologic, effective, or widely accepted.
- One of the important influencing factors of generic growth is the governmental fostering of generics in several markets for reasons of cost-containment.

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- Faced with increasing regulatory restrictions and a strong competition within the industry and from generics manufacturers, innovative manufacturers are greatly challenged.

REVIEW QUESTIONS

NOTES

1. Discuss the competitive strategy in detail.
2. Discuss competitive marketing structures in detail.
3. Discuss the generic and anti generic strategy.

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PART III: DISTRIBUTION STRATEGY

NOTES

UNIT I: OVERVIEW OF PHARMACEUTICAL DISTRIBUTION

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe the distribution process of ethical prescription pharmaceutical.
- know what is the ethical distribution channel function?
- explain the retail pharmacies.
- describe the web distribution revolution.

1.1 INTRODUCTION

PMAC members have increased employment by more than 3,300 since 1987, of which, 2,150 are in high-tech medical R&D. PMAC, 1998

The distribution of pharmaceutical products is of vital importance in their marketing. Indeed, whatever a product's characteristics or benefits are and whatever its pricing or promotional strategies have achieved in other markets, the product's availability at the right time and in the right place is critical to its penetration and long-term success in any given market.

Before discussing the avenues and methods used for distributing pharmaceutical products from manufacturing site to final customers, let us first define some related terms. *Supply chain* is a network of facilities and distribution options that procures

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materials, transforms these materials into intermediate and finished products, and distributes these finished products to customers. *Supply chain management* is designing, implementing, and controlling efficient supply chain systems. It is used in both strategic (designing, evaluating the outcome, and realigning) and operational (location determination, production, inventory, and transportation of goods across the chain) management (see Figure 1.1).

The tasks of supply chain management are purchasing, sales forecasting, production control, material handling, inventory management, distribution, and customer service.

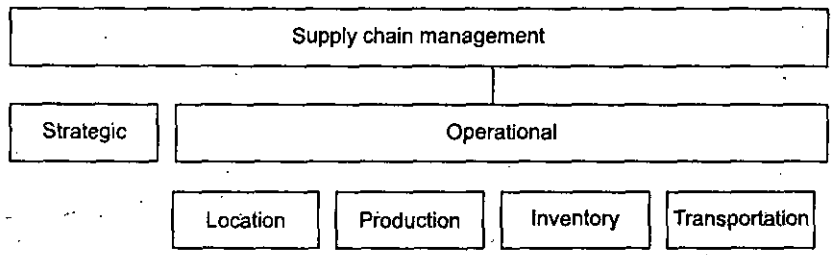

Fig. 1.1 Supply chain management

Logistics is the process of planning, implementing, and controlling the efficient and effective flow and storage of raw materials, in-process inventory, finished goods, and related information from point of origin to point of consumption for the purpose of conforming to customer requirements (Council of Logistics Management, www. clm 1. org).

It is now apparent that physical distribution of goods is only one of several tasks of supply chain management. As far as physical distribution is concerned, a *distribution channel* is a group of independent firms composed of manufacturers, wholesalers, and retailers designed to deliver the right set of products to the customers at the right place and time. A *distributor* carries pharmaceutical products from the manufacturing site to either wholesalers or pharmacies (hospital and retail), for a fee. An *agent* brings sellers and buyers together, for a commission. A *broker* is an agent that does not have a continuous distribution relationship with the seller. A *wholesaler* buys pharmaceutical products from the manufacturer and sells to retail pharmacists. A *retail pharmacist* buys pharmaceutical products from the wholesaler and sells to the public.

Distribution channels in different markets of the pharmaceutical industry are characterized by varying degrees of integration. In the order of decreasing vertical integration one can identify fully integrated corporate distribution systems, distribution franchises operating under various contractual arrangements, administered systems (where a single mass distributor may have disproportionate power over the remaining distributors), and also the commonly encountered system of multiple distributors and wholesalers.

1.2 ETHICAL DISTRIBUTION CHANNEL MEMBERS AND EXCHANGES

Ethical distribution describes the distribution process of ethical prescription pharmaceuticals, that is, the products of ethical manufacturers (those involved in

developing new prescription medicines through original R&D) (see Figure 1.2). Alternative routes of pharmaceutical distribution are those used for OTC products or the newly emerging Web distribution, which is discussed later in this unit.

The main characteristic of ethical distribution is the overwhelming use of distribution intermediaries. Distribution intermediaries are involved with the physical distribution of ethical pharmaceuticals from their manufacturing site to a large number of wholesalers or pharmacies within national, and sometimes international, markets. The main benefit of using a distribution intermediary is the reduction of manufacturer transactional contacts with the customers (as shown in Figure 1.3). Additional benefits, as identified by the U.S. National Wholesale Druggists' Association (NWDA), are listed in Table 1.1. The ethical pharmaceutical distribution channel intermediaries are broker, carrier, contract distributor, depositary, distribution agent, mail distributor, parallel importer, self-distributor, Web distributor, and wholesaler.

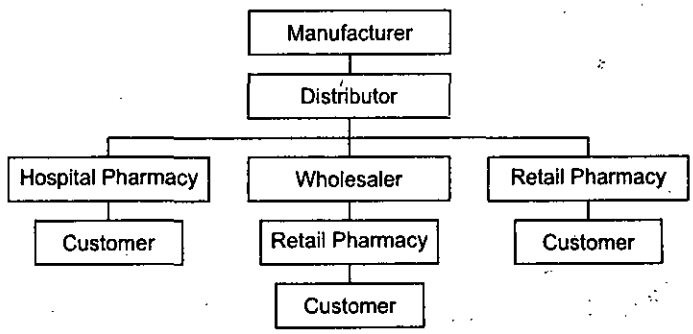

Fig. 1.2 Ethical pharmaceutical distribution channels

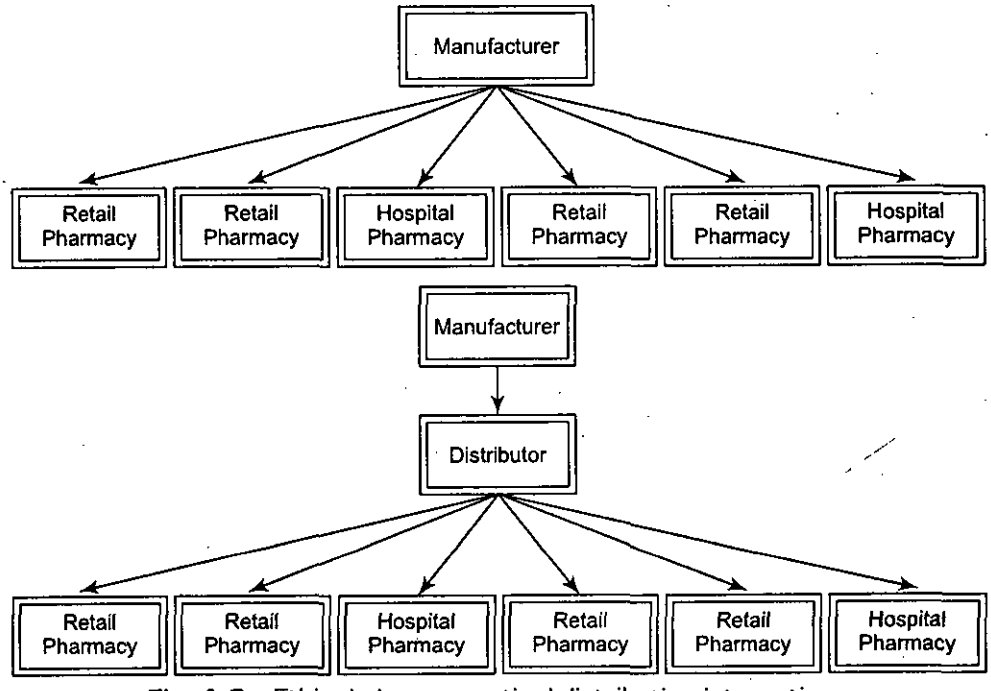

Fig. 1.3 Ethical pharmaceutical distribution interactions

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Table 1.1 Advantages of Using Pharmaceutical Distribution Intermediaries

1.	Reduced number of contacts
2.	Efficient performance
3.	Economies of scale
4.	Reduced margins for consumers
5.	Lower expenses for consumers
6.	Warehouse licensing and standardization
7.	Environmentally controlled and secure warehouses
8.	Availability of real-time product information
(Copyright 1999 National Wholesale Druggists, Association.)	

Furthermore, the ethical pharmaceutical distribution customer types are cooperatives, hospital pharmacies, pharmacy chains, retail pharmacies, supermarket pharmacies, and voluntary trading groups. Table 1.2 shows the ethical pharmaceutical sales and market shares in the U.S. market by class of customer. The ethical distribution intermediaries and their customers exchange a wide variety of goods and services, the main types are shown in Figure 1.4.

1.3 ETHICAL DISTRIBUTION CHANNEL FUNCTIONS DISTRIBUTORS

As previously discussed, distributors carry the products from the manufacturers to a large number of customers (wholesalers and pharmacies). During this phase, distributors do not actually take control of the products' ownership, but instead perform their function on a distribution fee basis—either as a distributed unit-related fee or as a percentage of manufacturer's value sales to wholesalers and pharmacies. The services offered by a distributor to the manufacturer vary widely, setting apart low-priced logistic subcontractors and high-end, value-adding integrated distributors. In general, these services may fall into three broad categories, namely, logistic, transactional, and facilitating. Main examples of each are summarized in Figure 1.5.

Wholesalers

As previously mentioned, a wholesaler buys pharmaceutical products from the manufac-turer and sells them to hospital and retail pharmacies. In contrast to the

Table 1.2 Ethical Pharmaceutical Sales by Class of Customer, U.S. Market

Class of Customer	Sales (U.S. millions)	Market Share
Wholesalers	54,714.6	78.4%
Retailers	9,640.5	13.8%
Private Hospitals	1,458.1	2.1%
Practitioners	1,258.6	1.8%
Manufacturers, Repackagers	1,423.8	2.0%
Federal Hospitals	570.2	0.8%
Other Federal Government	317.8	0.5%
State and Local Government Hospitals	415.2	0.6%
Total	69,798.9	100.0%
(Reprinted with permission from Pharmaceutical Research and Manufacturers of America)		

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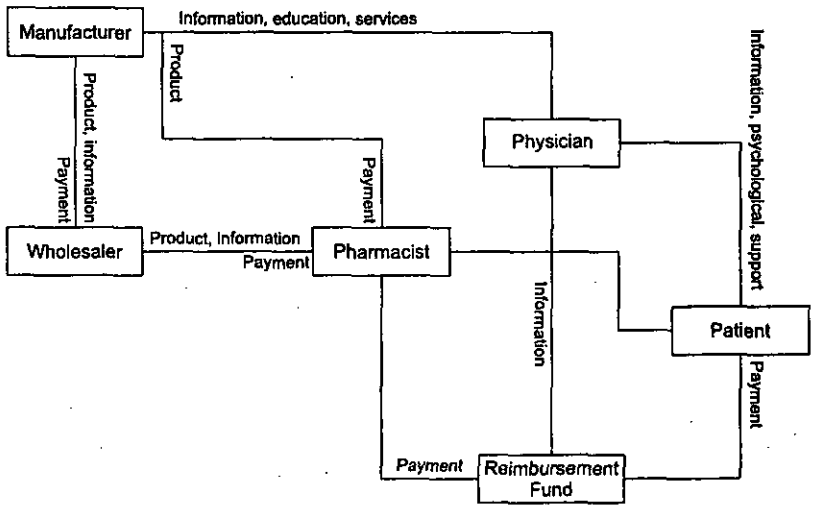

Fig. 1.4 Ethical pharmaceutical distribution channel exchanges

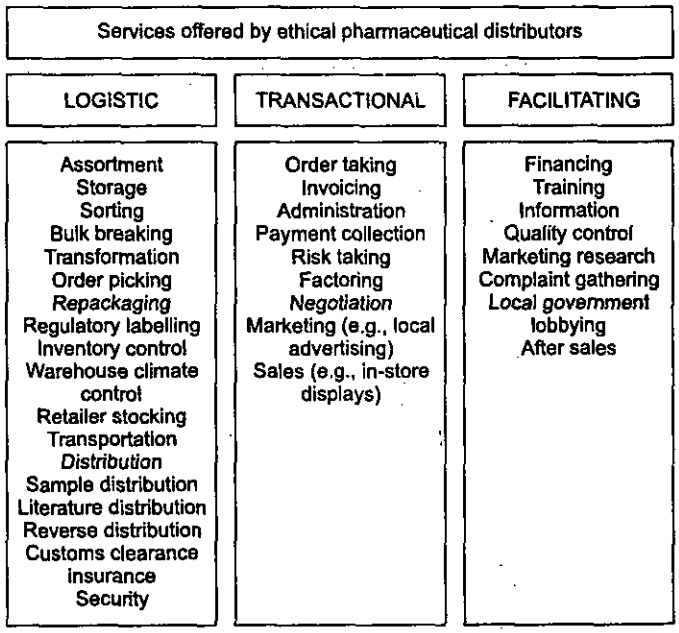

Fig. 1.5 Services offered by ethical pharmaceutical distributors

distributors, wholesalers take hold of products ownership and resells them to pharmacies and charges a wholesale margin. Wholesalers can be categorized as full-line (selling all product lines of pharmaceutical manufacturers) or short-line (often engaging in the sale of selected product lines, such as hospital products, opthalmologicals, and so on). Furthermore, they may be multichannel wholesalers (selling to hospitals, retail chains, retail independents, and mail-order pharmacies) or short-line (covering select retail channels only).

Retail Pharmacies

Retail pharmacies belong to large pharmacy chains that span across nations or small-sized independent retail pharmacies. They are characterized by the regulatory requirement of staffing at least one board-certified professional pharmacist, while large-chain pharmacies also employ several pharmacy assistants or technicians. In contrast to distributors or wholesalers, pharmacists are health care professionals coming in direct contact with consumers, and thus, require an advanced professional education and continuous training. Strict regulatory requirements

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apply to the layout and facilities needed for a retail pharmacy. The profession is even a closed system in some countries; meaning that a pharmacy-operating license can only be transferred by a retiring pharmacist to a new one in order for the number and operating standards of that country's pharmacies to be protected.

Hospitals

Hospital pharmacies share several common characteristics with retail pharmacies. They both require the presence of qualified pharmacists, have special storage and security facilities, and so on. Nevertheless, under the health care reform environment, these pharmacies do not have the same freedom when ordering and dispensing pharmaceuticals because institutional committees closely monitor their budgets. Usually there are institutional pharmaceuticals' buying committees, which follow strict formulary criteria and cost-containment guidelines.

Dispensing Physicians

One of the dying methods of pharmaceutical dispensing around the world is physician dispensing. This method is based on the drug dispensing, and therefore profit-making, rights given by few national governments to their physicians for either historic reasons or necessity mandated by vast rural areas. Japan and China are two countries that allow physicians to dispense pharmaceuticals. Obviously, the presence of this type of pharmaceutical dispensing presents certain disadvantages, for example, the tendency of these physicians to dispense high-priced products or to overprescribe. The system may be mandated by national conditions, and, as such, it may continue to operate in some markets.

1.4 OTC DISTRIBUTION

OTC distribution is a network closely resembling ethical prescription pharmaceuticals' distribution. But, based on the relaxed regulations concerning the sale of OTC medications, it is a much wider network, which includes food wholesalers, health food distributors, confectionery distributors, grocery stores, convenience outlets, gas stations, or health food stores (see Figure 1.6).

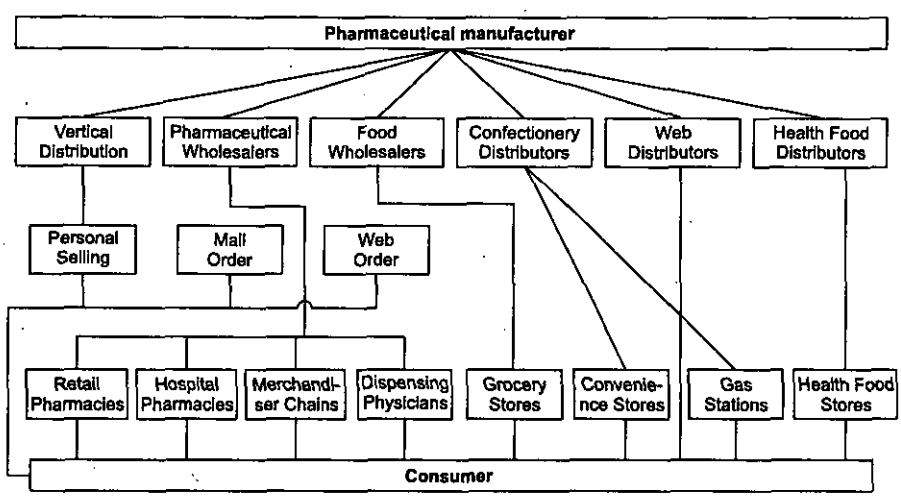

Fig. 1.6 OTC distribution channels

Whether or not the sale of OTCs is allowed outside the traditional pharmacy setting differs from country to country. Countries with strong pharmacists' trade associations have often protected their right to exclusively market pharmaceuticals to the final consumers, arguing that even nonprescription pharmaceuticals need to be properly marketed and explained to the persons in need.

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1.5 WEB DISTRIBUTION

The expansion of the World Wide Web revolution around the globe has given rise to a new pharmaceutical dispensing method: patients receiving their medications by contacting a Web-based, or "virtual," pharmacy and having their prescription medications shipped to their home. The number of operating virtual pharmacies is expanding quickly to meet customer needs for increased convenience, privacy, and speed of prescription filling. Some of the different drug dispensing scenarios appearing around the globe are: (1) pharmaceutical manufacturer-operated Web pharmacies; (2) medical Web sites offering information, education, prescribing, and dispensing; (3) Web pharmacies offering cutthroat drug prices; and (4) self-medication medical sites offering medical advice, computerized diagnosis of selected diseases, and pharmacy referrals.

Nevertheless, there are still several unsolved ethical aspects that need to be addressed by the relevant health care ethical and legislative bodies so that several potential problems are averted. For example, prescription authentication is almost impossible by a foreign-based virtual pharmacy; dispensing of unregistered products to the ordering patient's country presents serious regulatory problems; and getting prescription pharmaceuticals without a prescription or with a virtual prescription presents problems. These are issues that need to be resolved soon by the setting of a legal framework.

SUMMARY

- Logistics is the process of planning, implementing, and controlling the efficient and effective flow and storage of raw materials, in-process inventory, finished goods, and related information from point of origin to point of consumption for the purpose of conforming to customer requirements
- A distributor carries pharmaceutical products from the manufacturing site to either wholesalers or pharmacies (hospital and retail), for a fee.
- A retail pharmacist buys pharmaceutical products from the wholesaler and sells to the public.
- Hospital pharmacies share several common characteristics with retail pharmacies. They both require the presence of qualified pharmacists, have special storage and security facilities, and so on.

REVIEW QUESTIONS

1. Discuss the different ethical channel distributions.
2. What are different channel distribution functions?
3. What is OTC distribution?

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UNIT II: DISTRIBUTION STRATEGY

NOTES

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:.

- describe the functions of channel decision.
- know what is selecting distributor?
- explain the legistics functions.
- know about the parallel exports.

2.1 INTRODUCTION

Spending by PMAC member companies in universities and hospitals created up to 3,800 research jobs in 1995. PMAC, 1998

The design, implementation, and control of distribution strategy are some of the most important tasks of the overall marketing strategy. This strategy is a part of the overall logistics strategy that involves both inbound materials and products and outbound materials, parts, or finished products logistics. The outbound materials, parts, or finished products go to their customers (either the final consumers or finishing manufacturing sites) adding the final step in the manufacturing, processing, and packaging of the products).

This unit presents an overview of the key channel decisions, the criteria for selecting a distributor, and a brief presentation of the various logistic functions and costs, as well as a discussion of the important issue of parallel exporting, which greatly affects pharmaceutical marketing strategies in certain regions.

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2.2 KEY CHANNEL DECISIONS

What, then, are the main channel decisions a distribution manager is called to properly evaluate and decide upon? The five most important issues are: (1) channel intensity, (2) channel length, (3) channel integration, (4) key distribution functions, and (5) channel conflicts.

Channel intensity refers to the number of distribution intermediaries and retail outlets a manufacturer is using in order to reach the final customers, an issue that is discussed later. *Channel length* refers to the levels of a distribution network covered by any single channel, that is, whether the channel reaches the final customer or only mediates the distribution of products between the manufacturer and another intermediary (for example, a wholesaler). *Channel integration* is an indicator of distribution activities' consolidation within a single player (such as pharmaceutical manufacturer). It also indicates whether or not the manufacturer is using various contractual schemes to outsource the distribution function. Recent years have witnessed the increasing vertical integration of manufacturers, namely, the acquiring of external distribution networks and their integration into the manufacturer's supply chain. The managed care reform and the desire of the manufacturers to "control their destiny" (or contain their costs in a fiercely competitive market) mandated such moves. Nevertheless, the little experience gathered does not overwhelmingly support such an integration, especially when outsourcing of noncore competency areas are a must for manufacturers trying to focus on innovative R&D in their therapeutic area niches.

2.3 EXTENT OF DISTRIBUTION

The extent (or breadth) of the distribution decision determines the number of wholesalers, and, ultimately, retail outlets that will be carrying the product. As far as prescription pharmaceuticals are concerned, most countries have pharmaceutical distribution laws that mandate the full and uninterrupted availability of all prescription medicines at all retail pharmacies throughout the country. Therefore, it is not up to the manufacturer to decide which retail pharmacies to use, but only to decide on the number of distributors who will supply these pharmacies. A common phenomenon is stocking as many retailers as possible with a new pharmaceutical during its launch period because this is required before the territory's prescribers can prescribe the product to their patients. The decision to stock or have it delivered just-in-time is a critical decision for the pharmacist too, because a critical case (e.g., a life-threatening infection) cannot wait for a distribution delivery to the pharmacy and the patient's family may decide to search for it at another location. A frequently chosen strategy is the manufacturer (or a wholesaler) contacting its collaborating retail pharmacies, informing them of the new product launch, and offering special introductory payment terms if the pharmacists stock the new medicine. The continuation of this policy depends on the prescribers' and patients' acceptance of the new medication, which ultimately makes the product available in more outlets and eliminates the need of special terms offered to select pharmacies.

In contrast to prescription medicines, OTC medicines are items with a low customer decision involvement and a high switch rate if a specific product is not

available at the point of purchase. Therefore, they require wide availability in as many points of sales as possible, and an intensive distribution strategy is indicated. Table 2.1 shows some of the advantages and disadvantages of the various intensity distribution breadths.

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Table 2.1 Breadth of Distribution

	Intensive	Selective	Exclusive
Advantages	Easy to select *Frequent purchases*	Specialty items *Carefully chosen outlets*	High service support *High prices*
Disadvantages	Price competition among outlets	Requires retailer effort	Reduced purchases

2.4 SELECTING A DISTRIBUTOR

The decision to select a distributor is a critical one for the organization. It requires careful strategic planning from the organization, delicate negotiations with the potential distributor (often with current distributors fearing their profit margin erosion) and painful and time-consuming changes if a distributor has not met the company's expectations. There are a variety of selection factors for a new distributor. These factors can be categorized as strategic or operational, or as organizational or market-, product-, and environment-related (see Figure 2.1). **Strategic factors** are those having to do with the desired distribution intensity, the frequency and speed of distribution, or the required level of customer satisfaction. On the other hand, market-, product-, or environment-related factors are those imposed by the intrinsic characteristics of these three forces. **Organizational factors** are strategy-related, mandated by the company's intended level of service, desired customer satisfaction level, and internal resources and capabilities. These issues are very closely related to the work of marketing and product managers who have determined the required levels of customer service and satisfaction for the company's products to gain a competitive advantage. Furthermore, the tools of situation and competitor analysis, which are both described in following units, can help determine the internal resources and capabilities, as well as the required KSFs in the field of distribution.

Market characteristics such as size, density, geography, clustering, urbanization, and infrastructure largely affect distribution decisions and are critical to the overall commercial success of pharmaceutical products. A variety of technological tools are available today from third parties that can precisely describe geographical territory characteristics, monitor the progress of a distribution shipment, and provide on-line data for fast decision making.

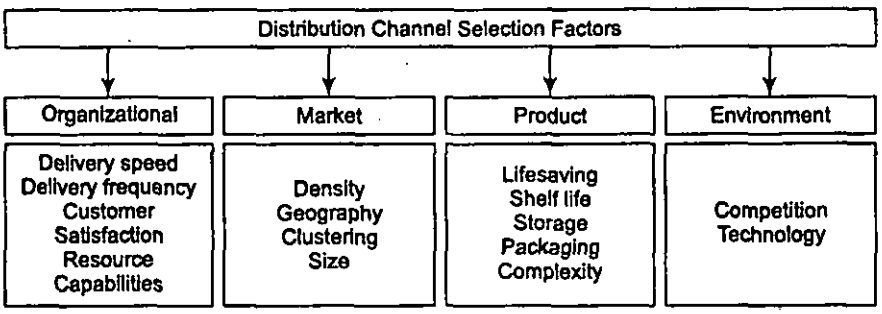

Fig. 2.1 Distribution channel selection factors

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Distribution strategy-related product characteristics include their lifesaving potential, their shelf life and storage requirements, and their packaging and distribution complexity. Obviously, lifesaving, hospital products require frequent and fast deliveries, while special storage needs require special facilities along the supply chain. Furthermore, a product's packaging may require protective repackaging for shipment or may render standardization difficult (e.g., ability to palletize), which increases the complexity of distribution. Additionally, competitive supply chain strategies and the availability of technological tools along the distribution path are significant factors in a product's distribution strategy or in selecting its distributors.

In conclusion, the selection of distributors should be a carefully designed process, involving a multidisciplinary team of experts—internal and external to the organization—working to optimize the distribution function and achieve higher customer satisfaction.

2.5 LOGISTICS FUNCTIONS

The company's logistics functions involves both inbound and outbound functions. The first deals with materials and resources coming into the organization for manufacturing, processing, or finishing, and the second deals with any activity related to the handling of manufactured goods to their customers. Figure 2.2 shows the main logistics functions. The next few pages are devoted to only a brief overview of these activities.

Materials Management

Inbound logistics are involved with the management of inbound materials. It includes the planning of production needs, procurement of the required raw materials, quality-assurance (adhering to strict internal standards), transportation to the manufacturing site, and salvaging or scrapping quantities unused by manufacturing. Each of these steps plays a critical role in the uninterrupted supply of high-quality products, and should be managed by pharmaceutical manufacturers effectively and efficiently.

Inventory Management

The management of the finished goods inventory is probably one of the most sensitive issues in the industry today because of accusations of creating excessive overhead costs or being responsible for costly stock-outs in times of unpredicted high demand. Nevertheless, despite the high costs involved, maintaining a sufficient inventory is essential for the following reasons: purchase economies, transportation savings, safety stock, speculative purchases, seasonal supply, maintenance of supply, production savings, and substitute supply.

The strategic decisions of defining the optimal inventory level and containing its costs are central to a company's supply chain management. The levels of inventory are related to the product characteristics (customer type, lifesaving potential, storage requirements, expiration date) or various market characteristics (size and growth, influencing trends, demand cyclicality and seasonality, tender bidding, retailer demands, and so on). All of these factors should be factored efficiently when estimating each product's future demand.

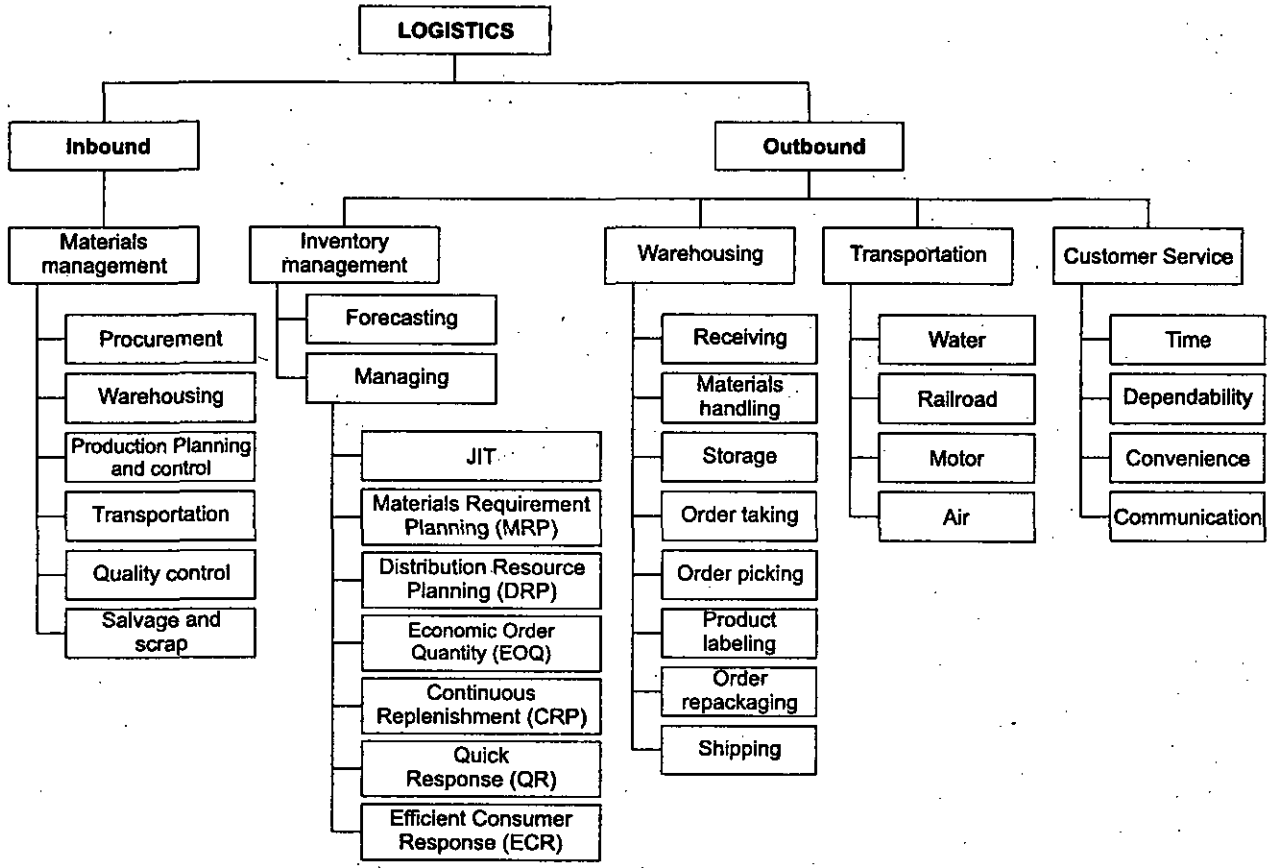

Fig. 2.2 The main logistics functions

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Warehousing

A host of tasks and activities are associated with product warehousing, such as receiving and storing, collecting customer orders, picking, labeling, and repackaging the ordered goods, and making them ready for physical transportation to customers. These activities are shown in Figure 2.2.

There are several types of warehouses used by the pharmaceutical industry. They range from vertically integrated facilities to fully outsourced warehouses kept by third parties. Some types of warehouses include: (1) **private:** kept by sole firm; (2) **public:** with own, as well as other companies' stock; (3) **bonded:** avoiding taxes and tariffs until product is ready to be sold; (4) **field:** when a firm requests receipt of goods in warehouse (*i.e.*, to use as loan collateral), value is negotiable; and (5) **contract:** kept by third party. Selecting any given type depends on the company's strategic intent, its internal resources and capabilities, and specific market conditions that exist in every national market (such as the evolutionary stage of third-party warehousing facilities, special legislation, profitability issues, and others).

Materials handling during warehousing involves the unloading and loading of product, transferring to and placing in their storage place, and transporting them within the warehouse for labeling, bar coding, and repackaging purposes. This handling can be manual or mechanized. Some of its important issues are movement, quantity, time, and space.

Repackaging involves placing product goods and product information (e.g., patient information leaflet) together into one package. It also includes special labeling of the outer packaging in country-specific manners; placement of the individual customer-ordered quantities in their shipping containers along with the accompanying shipping documents, and bar coding for easier processing. Some important issues for repackaging are the following: interior packaging (e.g., PIL, patient information material), exterior packaging, packaging materials (type, recyclability, size, variance, transportation mode, palletization), and corporate branding.

Transportation

Physical distribution, or transportation, involves the shipment of the finished and repackaged goods to customers via water, railroad, motor, and air. Powerful shipping specialists exist in almost every market. These agents are subcontracted by the manufacturer or its distributors using one of the following legal arrangements: common, contract, exempt, and private. In addition to the integrated or mode-specific shippers, there are a variety of other transportation intermediaries, such as small-package carriers, freight forwarders, brokers, and intermodal (between various modes, *e.g.*, between water and air) marketing companies.

An important component of the shipment is the accompanying document commonly known as the *bill of lading*, which describes the origin of shipment, receiver's address, and transportation contract terms. It also serves as a receipt of goods and a certificate of title of the goods.

When selecting a transportation agent, a manufacturer/distributor should pay attention to the following: (*a*) transportation rates, (*b*) minimum weight requirements, (*c*) loading and unloading, (*d*) packaging and blocking, (e) damage in transit, and (*f*) special services (*e.g.*, payment collection, reverse transportation).

Customer Service

One of the most important issues in pharmaceutical distribution is the degree of customer service provided by the various supply chain members. The strategic importance of this issue is clear in view of the fiercely competitive marketplace conditions existing in major markets, as well as the need for customer satisfaction in building a sustainable competitive advantage. Table 2.2 lists some customer service variables in ethical pharmaceutical distribution.

Defining the minimum required customer service level, as well as ensuring each member of the supply chain meets that level is a challenging task for pharmaceutical manufacturers. Nevertheless, a multidisciplinary team is helpful in setting the standards, while specialized customer service personnel should evaluate and control channel member performances. The latter can be enforced by using contract term or brand leverage by the manufacturer.

2.6 REVERSE DISTRIBUTION OF EXPIRED QUANTITIES

Reverse distribution of pharmaceuticals refers to the product distribution from its final customers back to the manufacturer's warehouse for reasons of product expiration or product recall. This activity represents a significant cost in both expired/discarded quantities and reverse distribution costs. Therefore, it should be managed efficiently by the manufacturer. Increased information and reminders to retailers or high manufacturing QA standards, play a significant role in reducing reverse distribution.

2.7 DISTRIBUTION-ASSOCIATED COSTS

Costs related to a products distribution activities arise from a variety of sources. Table 2.3 lists some of the most common ones.

The detailed measurement of each distribution-associated cost and a continuous effort to increase the distribution systems efficiency are two of the most important aspects of supply chain management. Enterprise-wide systems and other information technology tools help manage the supply chain.

Table 2.2 *Customer Service Variables in Ethical Pharmaceutical Distribution*

Condition of delivered goods	Order size	Order convenience	Delivery terms
Invoicing accuracy	Claims procedures	Order cycle time	Order status information
Inventory availability	Delivery reliability	Delivery consistency	

Table 2.3 Common Pharmaceutical Distribution-Associated Costs

1.	Direct Sales shipped products.	Order processing and shipping and handling costs of directly
2.	Sales Discounts and Allowances	Costs related to offering discounts, rebates, and allowances.
3.	Credit Extension state hospitals.	Costs resulting from delayed customer payments, especially
4.	Market Research service levels and so on.	Market research costs associated with assessing customer

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5.	Warehousing and Handling	Capital, human, insurance, and maintenance expenses for warehousing.
6.	Inventory Levels	The cost of inventory kept, expiration costs, and so on.
7.	Packing, Shipping, and Delivery	Repackaging, labeling, IT, insurance, and shipping costs.
8.	Order Processing	Order taking, invoicing, payment collection, and communication costs.
9.	Customer Service costs.	Information, training, added service, and communication
10.	Returned Merchandise	Expired or recalled merchandise reverse distribution and destruction costs.

2.8 PARALLEL EXPORTS

One of the most controversial issues within the pharmaceutical distribution frame work is the phenomenon of parallel imports, which is seen mainly within the boundaries of the European Union. The origin of this phenomenon may be attributed to the free competition and antimonopolistic policies of the European Union initially expressed in the Treaty of Rome. Essentially, the work of parallel importers is triggered by price differentials among the member states and is protected by the Treaty. Thus, they buy pharmaceuticals from countries with low prices and import them into countries with higher prices, bypassing the manufacturers' local pricing strategies and pocketing the price difference. Obviously, the practice of parallel importing represents a serious threat to manufacturers' profitability, who are actively seeking new and effective ways of limiting this problem. The following list contains some of the factors influencing the parallel trade of pharmaceuticals in Europe.

Sustaining Factors: National price controls and bargaining power of parallel traders.

Limiting Factors: *Pricing counter-measures:* Pan-European pricing strategies, direct negotiations with parallel importers, and discounting in parallel-import prone areas; *Nonpricing counter-measures:* Pan-European launch, product differentiation among different markets (formulations, strengths, packaging, labeling), attach added value to locally purchased quantities, restrict sales in certain countries to their needs, refuse delivery to suspect wholesalers; *Other:* self-erosion due to competition, regulatory barriers, political solution, legal measures, exchange rate fluctuations, and introduction of the Euro.

Manufacturers influenced by parallel exports, should carefully evaluate the above strategies and implement those suitable on a country-by-country basis.

SUMMARY

- Channel intensity refers to the number of distribution intermediaries and retail outlets a manufacturer is using in order to reach the final customers, an issue that is discussed later.

- Organizational factors are strategy-related, mandated by the company's intended level of service, desired customer satisfaction level, and internal resources and capabilities.
- Distribution strategy-related product characteristics include their lifesaving potential, their shelf life and storage requirements, and their packaging and distribution complexity.
- The company's logistics functions involves both inbound and outbound functions.
- Physical distribution, or transportation, involves the shipment of the finished and repackaged goods to customers via water, railroad, motor, and air.

NOTES

REVIEW QUESTIONS

1. Discuss key channel decisions.
2. Discuss the selection of distribution channels

FURTHER READINGS

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PART IV: PRICING STRATEGY

UNIT I: PRICING CONCEPTS

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★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- know what is elements of price?
- explain the pharmaceutical drug finance.
- describe the price control of government.
- know about the pharmacoeconomics.

1.1 INTRODUCTION

While Canadian prices of patented medicines are strictly controlled by the Patented Medicine Prices Review Board (PMPRB)—and have increased at half the rate of inflation since 1988—other factors, such as utilization and an increasingly aging population, also affect total drug costs. PMAC, 1999

Pharmaceutical marketers trying to define a proper price for a new product have a variety of pricing tools available from other industries. Nevertheless, pharmaceutical products bear distinct differences from consumer goods in their price-setting considerations. First, the patient often does not pay for his or her medication, which instead is reimbursed by national governments with varying price sensitivities. Second, activists and politicians alike often complain of "ever escalating drug prices," without giving any consideration to the R&D costs involved or even to their own expectations from their pension fund that invested in pharmaceutical company stocks. Third, all patients deserve the best possible treatment for their disease, regardless of actual cost if the drug is reimbursed or "symbolic" cost if it is not. Finally, the notion of health care as a social good that must be universally provided criticizes private pharmaceutical manufacturers

who must address the needs of their stockholders, in an ever more competitive environment.

This unit attempts to place the pharmaceutical pricing issue within the perspective of health care regulation, reimbursement, and pharmacoeconomics, and evaluate the importance of these parameters in the successful pricing and marketing of pharmaceutical products.

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1.2 ELEMENTS OF PRICE

Price is the value attached to a product or service. Price has many names: fee, price, rent, tuition, taxes, and fares. In the business world, price is one of the main elements of the marketing mix. Thus, is both closely related to and supportive of the other marketing mix variables. Price is also directly related to company revenues. Therefore, the pricing decision is very important. These are discussed in the following unit. *Value* is a buyer s perception on the worth of the seller's offering. This value is affected by three factors: the seller, the buyer, and the competing sellers. Thus,

Value = Perceived benefits — Acquisition cost

Customer equity is the value of the customer to the company.

Figure 1.1 shows the customer value cycle that exists in all industry sectors, including pharmaceuticals. Value enhancement of the company's product offerings leads to a competitive advantage and this leads to increased brand equity. This, in turn, leads to customer retention, which generates profits that complete the cycle by perpetuating the value enhancement process.

Profit is generated when the selling price exceeds costs. Profit making is often criticized by many as unnecessary seller's greed. The public images of obscure-billion aires leading extravagant lives on the profits of a trivial consumer good irritate most hard-working people around the globe. Thus, large profits create a negative image of those organizations, eventually giving the respective industry sectors a certain "aura" of profiteering and waste. Such feelings, however, arise from ignorance about the significance of business profit in free enterprise economies. Indeed, sustainable profit is the only factor responsible for long-term viability of a company. It offers the resources required to invest, acquire new technologies, develop new products, enter new markets and overall, remain competitive in a dynamic business environment. This is the notion of the operating profit, and should not be confused with profiteering or personal greed of the seller.

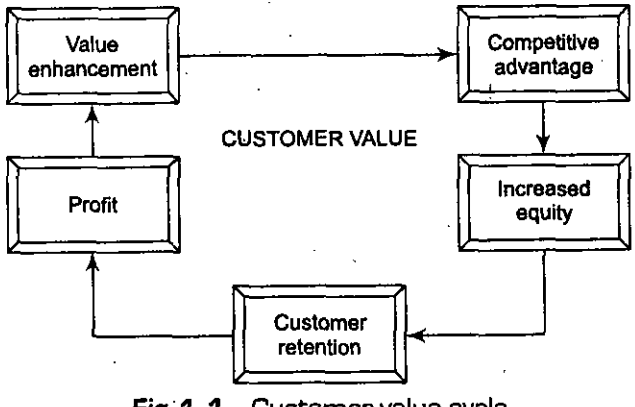

Fig. 1.1 Customer value cycle

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The pharmaceutical sector is a profit-driven enterprise. The industry customers, namely, prescribers and their patients, are largely unaware of the huge investment costs and years of R&D required to introduce a new pharmaceutical product to the market. In addition, wellness and health are considered basic human rights. Thus it is often considered that pharmacological treatments necessary for life should be offered free to the consumers. The high cost of a long-term pharmacological effect, even produced by a tiny quantity of medicine, makes the comparison to consumer goods' or luxury items' pricing impossible and irrelevant. Furthermore, in an era of increased worldwide regulation of the pharmaceutical industry and cost-minded governments, industry profits are often under criticism, negatively affecting the industry's public image.

Price as a Marketing Mix Variable

As mentioned earlier, price is an important marketing mix parameter. Together with the other variables, it is related to sales volume and, ultimately, to the company's profits. Furthermore, price is the final determinant of the value customers will attach to the product, and must reflect product characteristics and benefits very closely. Some of the characteristics of price are the following: (1) it is a comparable measure; (2) it is a signal of quality and value; (3) it affects the image; (4) it is a competitive weapon; and (5) it affects the sales volume.

While customers see only the product's value in the price, marketers see more elements to it. As Figure 1.2 shows, a product's price structure includes such terms as cost price, reference price, and reservation price. *Cost price* is the price level that allows the company to merely cover its costs with sales revenue or break even. *Reference price* is the price level relating to a set reference, such as the initial product's launch price or a national price or the price of the product as related to a well established product. Furthermore, *reservation price* is a price at a higher, "reserved" level. Setting the actual product price is related to the company's pricing strategy.

Price in the Economy (Supply and Demand)

A product's price affects the quantity that will be purchased by customers as well as the quantity that will be produced by the seller. Furthermore, a high price will probably make the product only available to the affluent, while a low price will make the product available to the masses. Two important terms often studied by marketers are supply and demand. *Demand* is the quantity that consumers are willing and able to pay for a given product at a given price. As the product's price

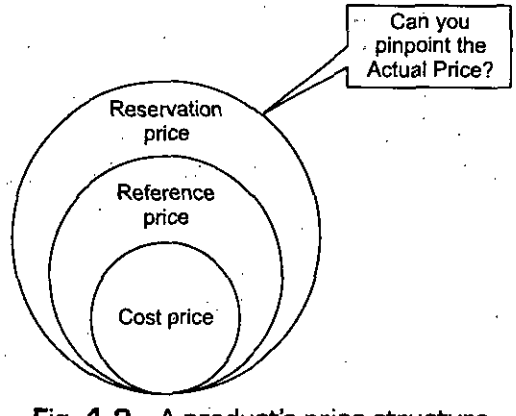

Fig. 1.2 A product's price structure

increases there is relatively less demand (see Figure 1.3). *Supply* is the quantity of a product that a seller is willing and able to sell at a given price. As product prices go up, so does supply. In Figure 1.3, the intersection of the Supply and Demand curves indicates the market size at a market price.

Close study of the relationship between the price charged and the quantity purchased (demand) is essential in the setting of the actual price level, and thus a main focus of a pricing strategy.

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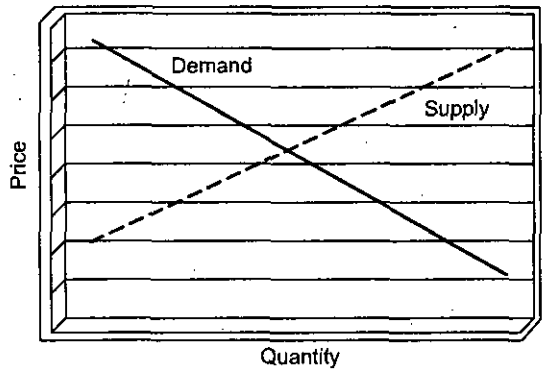

Fig. 1.3 The supply and demand curves

1.3 MULTIPLE PHARMACEUTICAL PRODUCT PRICES IN A SINGLE MARKET

Due to the complexity of healthcare systems and the government regulations surrounding the price of pharmaceuticals worldwide, pharmaceutical multinationals may need to set multiple price levels in different markets. In addition, due to the variety of different purchasing customers of pharmaceutical products in a healthcare system, there can be a wide spectrum of prices across the supply chain. The following list explains some of the different price levels found within a single national market.

Cost price: the price equivalent to the costs required for the product's manufacture. This changes according to the quantity produced due to the existence of fixed and variable cost centers. *Discount price* (where allowed): the reduced (from the regular price level) price offered by any member of the pharmaceutical supply chain. This is a closely regulated concept in most countries to avoid price wars within a healthcare system. *Hospital price:* the price of pharmaceuticals the hospital charges its inpatients or discharged patients (or their insurance agency). *FOB price* (Freight on Board or Free on Board): a price charged by a pharmaceutical manufacturer to an importer that includes the shipping charges up to a prespecified point of shipment. This point is not the importer's warehouse, but the original point-of-entry into the country. *Import price:* a price inclusive of manufacturing and shipping costs, as well as import taxes. *Net-to-hospital price* (ex-factory-to-hospital or Average Selling Price [ASP] to Hospital): the price a pharmaceutical manufacturer charges a hospital pharmacy. This is usually a highly regulated price. *Net-to-physician price* (where allowed): the price a pharmaceutical manufacturer charges the dispensing physicians (a practice limited to few countries today). *Net-to-wholesale price* (ex-factory-to-wholesale or ASP wholesale): the price a pharmaceutical manufacturer charges the wholesalers. *Retail pharmacy price* (public purchase price [PPP] or public price): the price the retail pharmacy charges the public. *Tender*

price: the price offered by a pharmaceutical manufacturer in a sealed bidding to a hospital or government tender. It may be significantly reduced from the average net-to-hospital prices. *Transfer price:* a price charged by a foreign manufacturing site to its local subsidiary entity. It is directly related to the subsidiary's profit margins and has important tax implications. *Wholesale price:* the price the wholesaler charges its retail pharmacy customers.

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1.4 PHARMACEUTICAL DRUG FINANCING

An industry marketer involved in setting the price of his or her company's products needs to be very familiar with the drug financing system in the respective markets. This is due to the fact that many discrepancies exist in the way and level of drug financing across national markets or even geographical regions of the same market. Furthermore, the substantial price increases of new, innovative products often are the focus of cost-minded politicians who are looking for ways to reduce the healthcare bill—looking first at the price of pharmaceuticals and last at the inefficiency costs of healthcare institutions.

The main methods of drug financing in most countries are shown in Figure 1.4. These are broadly based on a long-term financing scheme (insurance, social security, and so on) or a fee-for-service consumer copayment. The level of national healthcare spending is often a hotly contested issue and is usually in the 5—8 percent of the gross domestic product range in most industrialized countries. On the other hand, the patient copayment level is an important determinant of the adoption rate of new pharmaceutical products. Therefore, both standards are very important for setting a marketing strategy and must be carefully considered in industry's business planning.

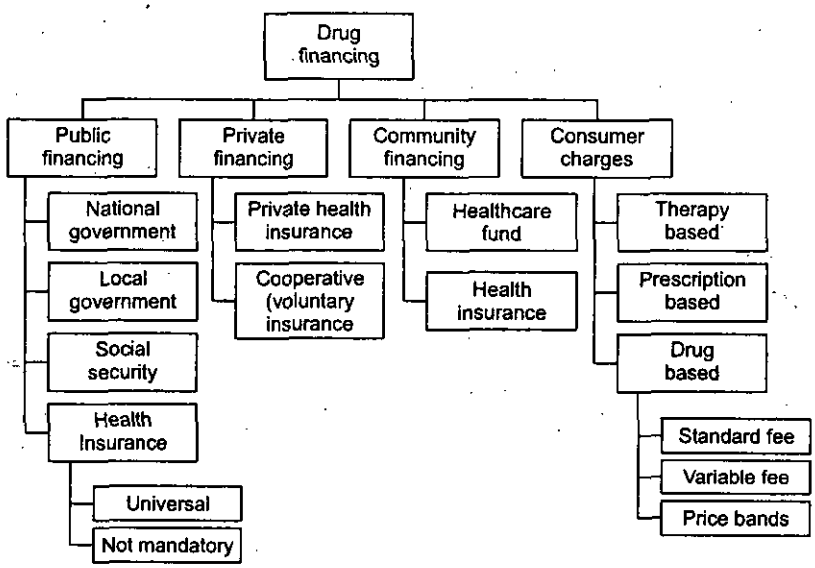

Fig. 1.4 Drug financing methods in different healthcare systems

1.5 GOVERNMENT PRICE CONTROL

National or local governments significantly influence pharmaceutical prices around the global market environment. Figure 1.5 shows some of the government influences on pharmaceutical pricing.

Industry leaders have taken diverse stands on the issue of government intervention; that is, some elect a low-profile approach, while others opt to confront the issue. Regardless of the final outcomes, it remains extremely important for the industry to stand behind the relevant trade associations to protect its profitability and long-term viability. Conversely, the industry's fragmentation and opposing agendas will only weaken its position against its competitive forces (remember Porter's Five Competitive Forces) and will lead to a long-term detrimental effect.

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1.6 REIMBURSEMENT

Reimbursement refers to the level of government or private payors' financial coverage of healthcare products and services used by consumers. In the case of pharmaceutical products, this coverage comes from one of the existing drug financing methods discussed earlier. In general, healthy citizens (receiving vaccines, mothers in delivery, and so on) and patients are charged by their primary provider (physician, hospital, and so on) for health services and products, which are wholly or partly covered by the payor (state or private) and partly by the consumer. The contribution of the latter is also called the consumers copayment.

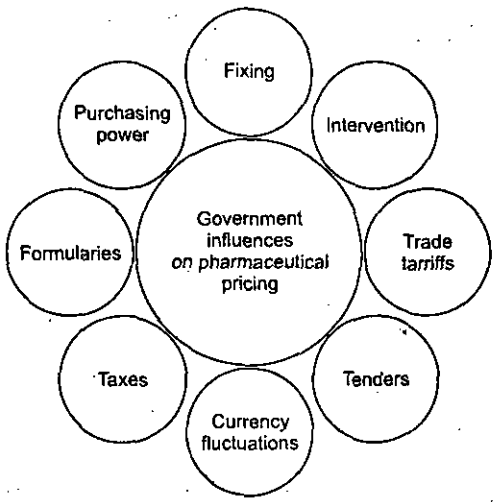

Fig. 1.5 Government influences on pharmaceutical pricing

Different healthcare systems are characterized by different levels and systems of healthcare reimbursement. This characterization is related to the economic strength of the state payor, the contribution structure of the private payor, the severity and duration of the disease covered, or the costs of the product or services utilized. The four most common systems are (*a*) the standard percentage system (all medical interventions reimbursed with the same percentage); (*b*) variable percentage (disease states categorized according to severity and duration, where the most severe is reimbursed the highest); (*c*) price bands (medical interventions reimbursed up to a certain percentage based on price); and (*d*) price ceilings (where all interventions are reimbursed up to a certain fixed price ceiling). Typical disease reimbursement levels are 100 percent for chronic and severe diseases (cancer, AIDS, multiple sclerosis), 75—90 percent for less severe but chronic diseases (asthma, osteoporosis), and 50—75 percent for other ailments. Faced with the growing healthcare costs, several payors are gradually lowering their copayment levels, which automatically raises the patient copayment contributions.

Another very important issue in pharmaceuticals reimbursement is the issuing of state reimbursement formularies or "lists," which include products reimbursed

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by the state. When these lists include those reimbursed products they are called *positive reimbursement lists;* lists of nonreimbursed or excluded pharmaceuticals are called *negative lists.* Under these circumstances, it is critical for the commercial success of any given product to be included in the list of reimbursed pharmaceuticals because the insured or covered part of the population is usually the majority of the population.

The inclusion method, then, is the predetermining factor for a product's inclusion or exclusion into the reimbursement lists. Different governments have instituted a wide spectrum of inclusion methods, ranging from the all-inclusive automatic systems, to the long and hotly debated reimbursement negotiations between the government reimbursement committees and the pharmaceutical manufacturer. Some of the most common reimbursement inclusion systems follow.

Automatic, across the board: Resource-rich nations opt to offer complete reimbursement of all new pharmaceutical products. The reimbursement's date of effect can be simultaneous with local registration, or local pricing (in countries with split registration-pricing systems), or a certain time after launch (one year, five years, and so on). *Automatic, but coverage related to disease state:* All new products are reimbursed but only up to a percentage of price according to the degree of disease severity. For example, anti-cancer products are fully reimbursed, while NSAIDS are reimbursed 50 percent. *Automatic, but coverage up to a maximum ceiling:* All new products are reimbursed up to a certain price ceiling. For example, an economic anti-allergy medication is reimbursed 100 percent because it is below the ceiling, while an expensive oncological is reimbursed 50 percent because it is priced at double the price ceiling. *Daily treatment cost based:* New pharmaceutical products are compared on a daily treatment cost basis, figured by multiplying the recommended daily dosage by their unit price. All drugs below a therapeutic class average are reimbursed while those above are not reimbursed. This system ignores the total treatment cost differences and the overall decrease of morbidity caused by an apparently expensive product as opposed to a less effective cheaper alternative. This system supports the use of older, lower-priced or generic pharmaceuticals. *Therapy cost based:* New pharmaceutical products are compared according to their total therapeutic cost, or, if chronically used, according to their annual costs. Only those costing below a set average are reimbursed within each therapeutic category. *Outcomes based:* New products are thoroughly compared to an existing "reference" drug on the basis of extensive clinical outcomes data (over a long period of time and with a large number of patients). Data on new products are collected during their clinical trial phases, while existing drugs use clinical trial and postlaunch treatment data. The comparison is done with the use of special analytic tools, which are developed by the modern science of pharmacoeconomics, presented next.

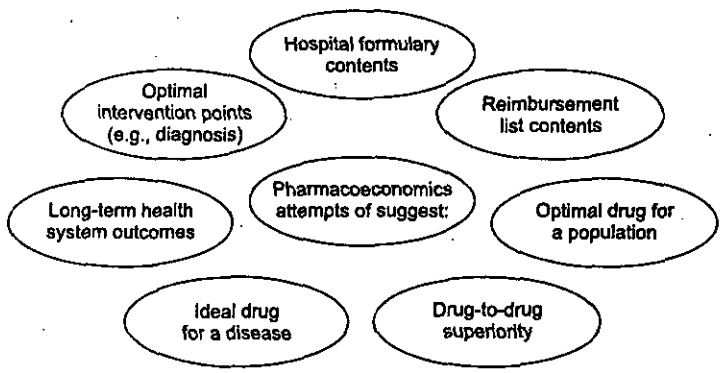

Fig. 1.6 The role of pharmacoeconomics

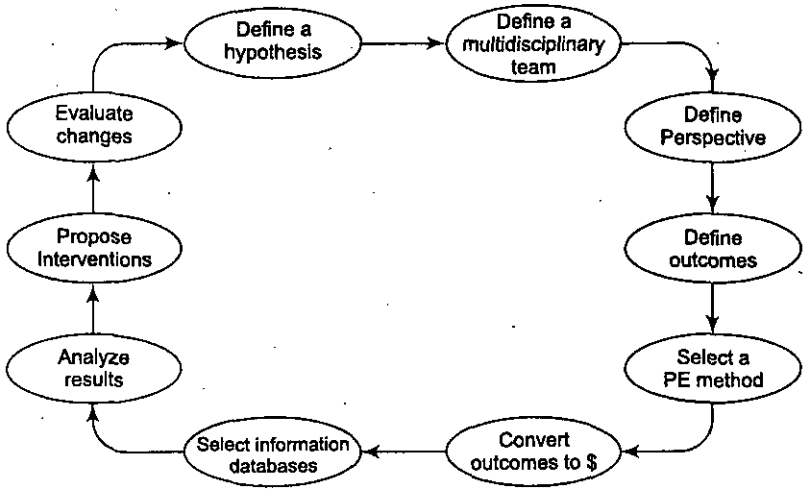

Fig. 1.7 A pharmacoeconomic study process

1.7 PHARMACOECONOMICS

Pharmacoeconomics is the systematic analysis of pharmaceutical product and care services' costs and their impact on patients, healthcare systems, and society. Increasingly, it is being used in healthcare environments around the globe. Therefore, use of this analysis by the pharmaceutical industry is required for success. Figure 1.6 shows the main role of pharmacoeconomics.

Table 1.1 Major Pharmacoeconomic Techniques

Cost-analysis	Studies the total costs of a medical intervention: direct (medical and nonmedical), indirect (lost income), and intangible (degree of suffering). Also determines the cost of illness, identifies cost savings, and predicts cost impact. It does not study the outcomes.
"Willingness-to-pay analysis	Evaluates the patient's willingness to pay for alternative medical procedures with different costs.
Outcomes analysis	Typical clinical trials involved in studying efficacy and safety, or quality of life. Does not study costs.
Cost-benefit analysis (CBA)	Studies the relation between costs and benefits of a project, and compares similar projects on the basis of these results. Both costs and benefits are evaluated in dollar amounts and are compared.
Cost-effectiveness analysis (CEA)	Divides the per-unit-benefit by the per-unit-output when a project involves multiple modules of basically the same service. Benefits are not evaluated in dollar amounts, but, instead, compares the costs of alternative means of achieving the same benefit.
Cost-minimization analysis (CMA)	Attempts to identify the least costly alternatives in providing health care.
Cost-utility analysis (CUA)	Studies the quality-adjusted life years or other utilities associated with the chosen medical intervention.

Pharmacoeconomics' focus is on the direct, comparative, and indirect costs of pharmaceutical product and care services among large numbers of individuals. A typical pharmacoeconomic study process includes the components described in Figure 1.7.

The analysis of pharmacoeconomic data is performed by the use of special techniques, such as cost-benefit, cost-effectiveness, cost-minimization, and cost-utility analyses. A description of these analytic tools is given in Table 1.1.

SUMMARY

NOTES

- Price is the value attached to a product or service. Price has many names: fee, price, rent, tuition, taxes, and fares.
- Customer equity is the value of the customer to the company.
- Profit is generated when the selling price exceeds costs. Profit making is often criticized by many as unnecessary seller's greed.
- Demand is the quantity that consumers are willing and able to pay for a given product at a given price.
- *Cost price:* the price equivalent to the cost required for the product's manufacture.
- *Transfer price:* a price charged by a foreign manufacturing site to its local subsidiary entity. It is directly related to the subsidiary's profit margins and has important tax implications.
- Reimbursement refers to the level of government or private payors' financial coverage of health care products and services used by consumers.
- *Outcomes based:* New products are thoroughly compared to an existing "reference" drug on the basis of extensive clinical outcomes data.

REVIEW QUESTIONS

1. What are the different elements of pricing?
2. Discuss the pharmaceutical drug financing.
3. Discuss the pharmacoeconomics in detail.

FURTHER READINGS

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UNIT II: PRICING STRATEGY

NOTES

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe the price-quality strategy.
- know what is customer demand?
- explain the functions of your costs.
- describe the functions of pricing polices.

2.1 INTRODUCTION

The failure to have prescriptions dispensed and/or refilled has resulted in an estimated cost of 8.5 billion U.S. dollars for increased hospital admissions and physician visits—nearly one percent of the U.S. total healthcare expenditures.

APhA, 199

Before describing the pricing objectives and strategies pharmaceutical companies follow, consider the following two scenarios. A patient suffering from hay fever needs a decongestant and plans to spend some personal money to buy an OTC product from the local supermarket pharmacy. At the same time, a hospital pharmacist is looking to replenish some of her antibiotic inventory by using hospital funds for ordering a product included in the managed care hospital formulary. Both the individual patient and the pharmacist have a therapeutic need, varying degrees of product knowledge, and access to money needed (their own or the hospitals budget). Therefore, they are both potential buyers of a pharmaceutical product.

Proper pricing involves matching the price to buyer value. Costs are only partly involved in the pricing process. If the buyers perceived value is low, the price offered by the seller may seem much higher and thus, low product sales may be inevitable.

NOTES

However, if the buyer's perceived value is high, the offered price may seem low in the eyes of the buyer, and this results in high volume sales. Therefore, a product's perceived value should be known in advance, and the ideal price should be matched to the value. Lowering the price to match the value may be limited by high manufacturing costs, and the price setting should include the detailed analysis of fixed and variable costs. This cost analysis may even create dramatic savings by reducing a single cost, leading to increased profit margins. On the other hand, the perceived value or other market conditions may allow a high price, maximizing the profit. Competitive pricing is another important factor because comparative product prices and their perceived value may lead to the product s success or market demise. Finally, after a products price is set using its own perceived value and other competitor and market factors in its launch market, different national market and pricing environment conditions will demand their own complex considerations. After these are done, does the price of a product remain the same throughout its life cycle? The answer is definitely no. For instance, government tenders may require fiercely competitive pricing, or large customers may require special prices, or sagging demand may mandate short-term price discounts.

This chapter discusses the different price-influencing factors, explains the price elasticity principle, and presents the most commonly used pricing strategies for new and established pharmaceutical products.

2.2 PRICE-QUALITY STRATEGY

As previously mentioned, pricing involves matching the price to a buyer value. What does the value of a pharmaceutical product represent to a prescriber/patient then? It may represent the product's high efficacy and safety, good tolerability, lack of drug interactions, ease of administration, fast onset of action, no dependence, no need for hospitalization, no days lost from work, sales location convenience, and so on.

After determining a products value, how does a customer decide what price he or she will pay? A customer determines a price by comparing the relevant value of the products characteristics and benefits to the alternatives, and then decides what this difference represents to him or her. Obviously, if a new product holds a differential advantage over the existing alternatives, then the customer attaches a higher value to this product and is willing to pay a higher price for it. If, on the other hand, the product is no better or less efficacious than the existing alternatives, or it is equal in all characteristics and benefits but the customer must drive fifty kilometers to find it, then the new product is of a lesser value to the customer. He or she may be willing to pay only a lesser price than for the easily found alternative.

If the manufacturer estimates the relative values a customer is attaching to the different product alternatives and prices his product according to its perceived value, then the product will have a good sales performance. The different relationships that may exist between the final price and the relative values the customer is attaching to each of the product characteristics and benefits are illustrated in Figure 2.1. If the product possesses a characteristic of high customer value and has a low price, then the manufacturer is said to follow an excellent value strategy.

The customer value of pharmaceutical products can be evaluated through various market research techniques. The determined relative value of the various product alternatives are compared using a value analysis ranking shown in Table 2.1.

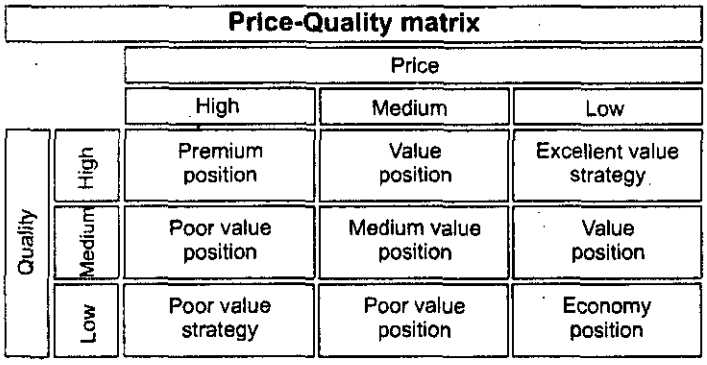

Fig. 2.1 The price-quality matrix

Furthermore, the estimated value index of alternative product substitutes can be plotted against their actual price in a two-dimensional map. This helps visualize products that have better value-to-price ratios than their competition (see Figure 2.2).

Figure 2.3 shows the different price-setting steps. A company's marketing team sets the pricing objectives of the organization, assesses customer demand, sets the pricing poli-cies and strategy, and, finally, sets the price range, which may be adjusted periodically.

2.3 SETTING A PRICE OBJECTIVE

A company's pricing decisions should closely reflect the company's pricing objectives. Pricing objectives, together with the organizations product, distribution, and promotion objectives, constitute the organizations marketing objectives (which are part of the overall company objectives). Which can be the organizations pricing objectives then? As Figure 2.4 shows, the organization may be determined to fight the competition, establish an image, increase its revenue income, and so on.

Selecting a distinct pricing strategy helps the organization achieve its pricing objectives, which are a part of its overall objectives. Table 2.2 gives a detailed listing of how different pricing strategies can help attain the organizations objectives.

Table 2.1 Determining the Customer Value of Pharmaceutical Products

5 = high, 1 = low								
Product Attribute	**Your Prescribes Importance**	**Value**	**Competitor A Importance**	**Value**	**Competitor B Importance**	**Value**	**Competitor C Importance**	**Value**
Efficacy	5	3						
Safety	4	5						
Tolerability	4	3						
Adverse effects	3	4						
Onset	2	2						
Other								

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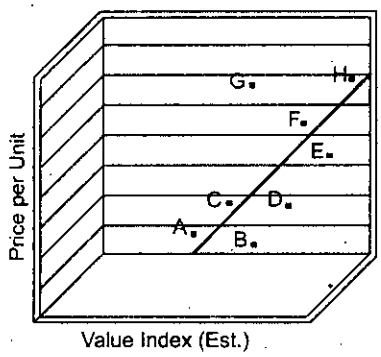

Fig. 2.2 A value-to-price product comparison map

Based on the different potential price-to-value and price-to-objectives relationships, a product s final price level can be placed in one of the four quadrants of the price-to-value or price-to-objectives matrix (see Figure 2.5).

2.4 ASSESSING CUSTOMER DEMAND

There is a wide spectrum of influencing factors that may affect pharmaceutical prod-uct pricing. Table 2.3 lists several of these factors, which are demand side, supply side, or environment related.

The first step in assessing customer demand is to measure the product price and product demand relationship. Typically, customer demand decreases as a function of an increasing price. Figure 2.6 depicts a typical demand and revenue curve as they relate to the product's price. At an optimal price-to-demand relationship, the company's sales revenues are maximized.

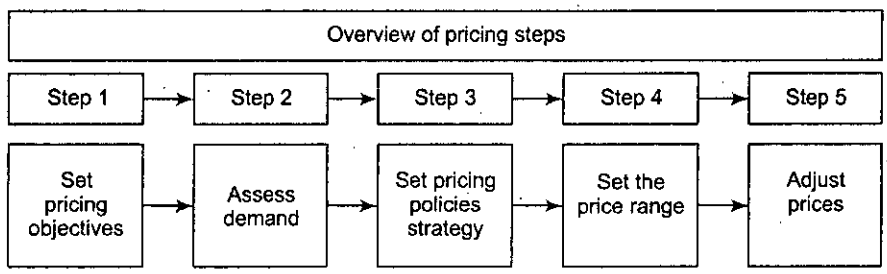

Fig. 2.3 Overview of pricing steps

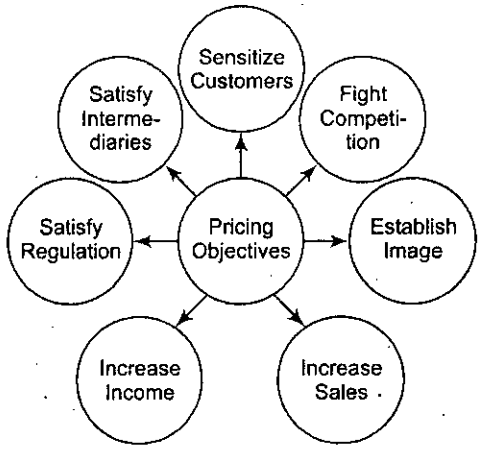

Fig. 2.4 Different pricing objectives

2.5 PRICE ELASTICITY OF DEMAND

Having studied the price-to-demand relationship, a marketer has to determine exactly how a given change in price affects the quantity of the demand. This parameter is described by the term *elasticity of demand,* defined as:

Price elasticity of demand = % Change in Quantity/% Change in Price

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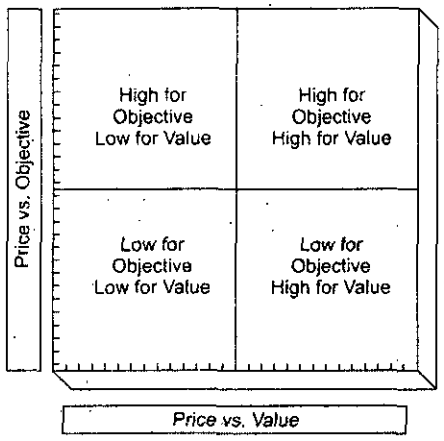

Fig. 2.5 Product pricing versus objectives value grid

Table 2.2 How Pricing Can Help Attain Certain Organizational Objectives

Competition	**Customer**
Meet competition Avoid competition Undercut competition Set up entry barriers to competitors Force out of business Be the price leader Maintain market price stability Be the lowest price supplier	Sensitize to price Desensitize to price
Image	**Income**
Become the quality leader Underline product differentiation Enhance branding Behave ethically Maintain employment	Achieve a target return on investment (ROI) Maximize profits Limit the payback period Achieve product portfolio balance Achieve product bundling Increase cash flow Achieve survival
Intermediaries	**Regulation**
Maintain MCO satisfaction Protect distributor/wholesaler margins	Abide to state pricing laws Avoid trade barriers Achieve reimbursement Achieve formulary inclusion
Sales Volume	
Skim the market Foster sales growth Maintain market share Gain market share Expand market size	

NOTES

As previously mentioned, a decrease in price leads to an increase in demand. Figure 2.7 depicts two potential demand curves. By comparing their respective slopes for the same price decrease, observe that the one to the right of the diagram is more responsive to the price change and is called *more elastic.* In contrast, the one to the left is less reactive; that is, a smaller demand increase follows the price decrease and is called *less elastic.* Furthermore, the term *cross-elasticity of demand* refers to the change in a product's demand following a price change of another product.

What are the factors influencing a product's elasticity of demand? Some of the most important factors include: product positioning strength; product differentiation strength in the eyes of the prescriber/consumer; number of competitors (ethical and generic); competitor brand awareness; other forms of substitution; product use within a combination treatment scheme; importance of product for treatment (antipyretic versus anticancer); and absolute price of the product (generic analgesic pill versus biotechnological anticancer treatment). In general, the broad pricing strategies as related to elasticity are (*a*) if elastic, decrease prices and (*b*) if inelastic, increase prices. Finally, how do costs impact price elasticity? Costs impact price elasticity through (*a*) relationship of fixed costs and variable costs, (*b*) economies of scale, and (*c*) cost structure versus those of the competitors.

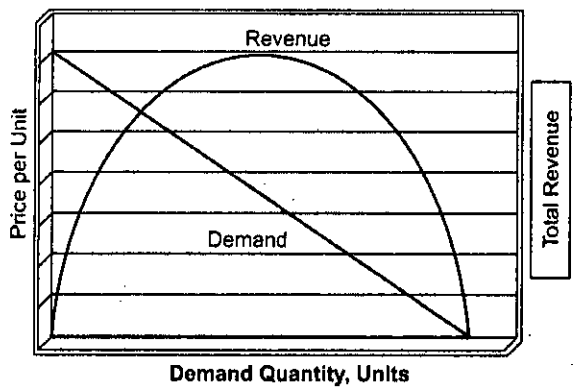

Fig. 2.6 The demand curve

Table 2.3 Pharmaceutical Price Influencing Factors and Their Variables

Demand	Supply	Environment
Competitive pricing	Additional product portfolios	Import taxes
Competitive product characteristics	Company market position	Inflation
Customers' adoption rates	Competition intensity	Manufacturing site licensing
Distribution strategy	Corporate objectives	Parallel imports
Elasticity of demand	Customer service costs	Patent protection
Formulary inclusion	Disease management costs	Patient compliance to prescription
Hospital pharmacy buying power	Distribution costs	Patient perceptions and expectations
Market life cycle stage	Financial costs (loans and foreign currency)	Per capita income
Patient segment buying power	Formulations available	Prescription switching
Prescriber specialty	In-house technology know-how	Regulatory environment
Primary demand (*i.e.,* for therapeutic category)	Manufacturing costs	Social attitudes on disease
Product characteristics	Patent protection	State economic status
Product cost structure	Product differentiation	State reimbursement
Product life cycle stage	Promotional costs R&D costs	
Promotion strategy	Raw material availability	
	Regulatory approval	
	Sales taxes	

Regional market size Reimbursement coverage Secondary demand (*i.e.*, for a given company's products) *Supplemental therapy costs* Total treatment cost	Threat of new entrants	Trade barriers

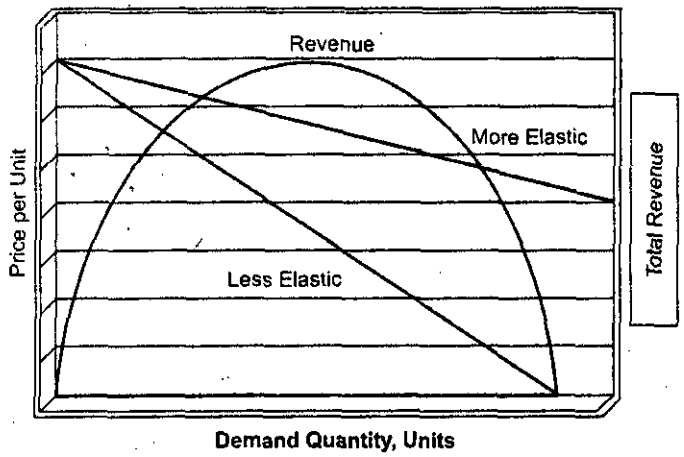

Fig. 2.7 The price elasticity of demand curve

2.6 KNOWING YOUR COSTS

Costs provide an indispensable background for the design of a pricing strategy. They include: (*a*) fixed manufacturing costs, (*b*) variable manufacturing costs (raw materials), (c) advertising and promotional costs, (*d*) distribution costs, and (*e*) sales force costs, and so on. Costs are broadly categorized *zs fixed costs* (those remaining stable as the quantity produced rises, *e.g.*, those coming from manufacturing site utility costs, or workers' compensation) or *variable costs* (those increasing as the quantity produced increases, *e.g.*, due to higher distribution and promotional costs). *Total costs* are the sum of fixed and variable costs.

Another important aspect of a product pricing strategy is the development of the experience curve process. As Figure 2.8 shows, manufacturing repetition leads to **learning** (due to improved machinery, improved yields, improved labor efficiency, product standardization, product redesign, or alternative materials sourcing), while the volume growth leads to **economies of scale.** Both of these lead to increased experience and reduced costs.

Eventually, as the accumulated unit volume is increased, the resulting cost per unit is decreased (see Figure 2.9).

Now evaluate the cost-to-output relationship. The combined effects of the price-to-demand relationship and the experience curve are plotted in Figure 2.10. As the quantity produced increases, total costs rise, while total revenues rise to a maximum profit level (revenue minus cost), and then decrease due to the supply exceeding demand.

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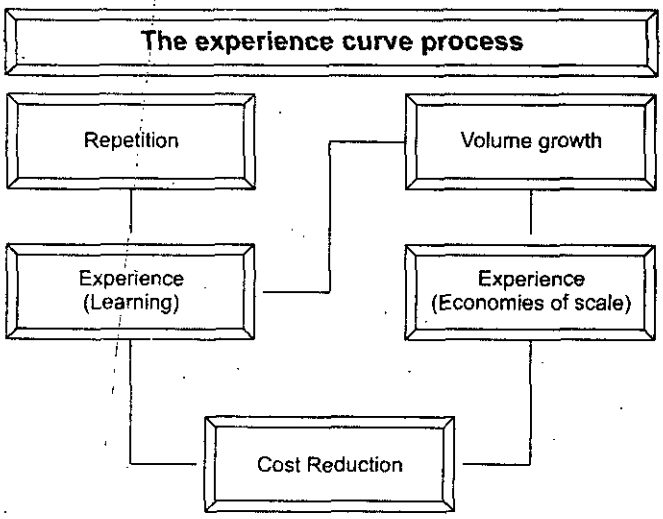

Fig. 2.8 The experience curve process

2.7 SETTING PRICING POLICIES

Pharmaceutical marketers have a large armamentarium of different pricing policies to choose from. These policies are broadly categorized in five groups.

1. *Differential pricing* indicated for markets with a diverse customer mix
2. *Competitive pricing* aimed to fight the competition
3. *Product-line pricing* aimed at optimizing profits for the product line as a whole
4. *Psychological/image pricing* aimed at setting a company's image, and
5. *Distribution-based pricing* related to various distribution routes.

The most common policies within each of these broad categories are listed and explained in Table 2.4.

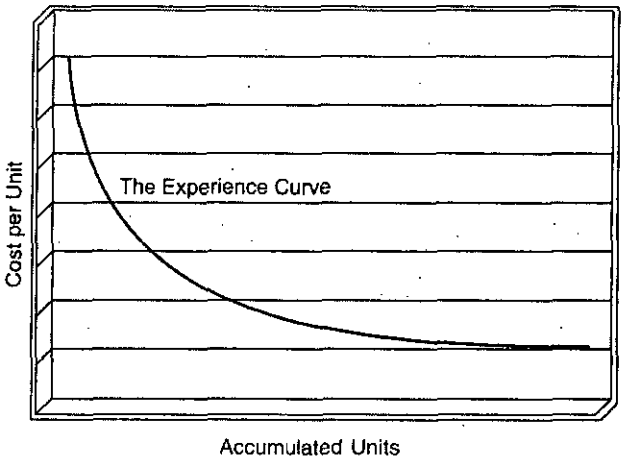

Fig. 2.9 The experience curve

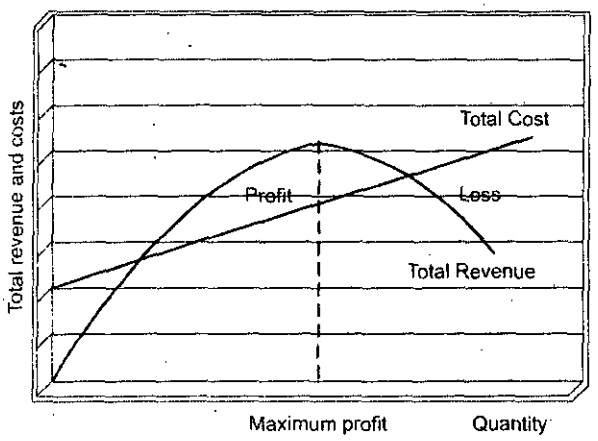

Fig.2.10 Costs versus revenues as demand and quantity produced change

2.8 SETTING THE PRICE RANGE

Armed with the knowledge of corporate pricing objectives and the company's product cost structure, as well as the evaluation of customers' perceived values and price-to-demand relationships, a pharmaceutical marketer then proceeds to set the product's price range (see Figure 2.11).

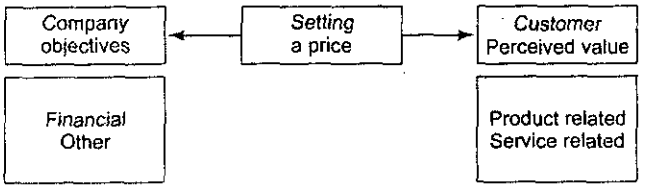

Fig. 2.11 The price-setting framework

Table 2.4 The Basic Pharmaceutical Pricing Policies

Differential Pricing	Explanation
Variable pricing	Set different prices in different markets, due to local regulations. If primary market covers fixed/variable costs, enter second market with lower price.
Second market discounting	Set initial prices high, then lower gradually.
Skimming	Lower prices at periodic intervals (*e.g.*, seasonally).
Periodic discounting	Lower prices unpredictably and infrequently.
Random discounting	
Competitive Pricing	
Competition-meeting pricing	Offer products priced at the same level with competition.
Competition-undercutting pricing	Avoid price wars.
Price leadership	Offer prices lower than competitors' to try to gain market share.
Following the leader pricing	Capitalize on competitive advantage (*e.g.*, unique formulation) to set high prices.
Penetration pricing	Adjust prices according to the market leaders pricing moves.
Predatory pricing	Offer initial prices below cost, planning to capitalize as experience curve rises. *Set* initial prices low to eliminate competitors, then raise them.
Traditional pricing	Set according to historic price of "reference" drug (*e.g.*, the first NSAID).
Inflationary pricing	Adjust prices downward if inflation rises (lower purchasing power).

NOTES

Product-Line Pricing	
Total-profit pricing	Sacrificing an item's price so that store traffic and, thus, total profit increase.
Captive pricing	Price a basic unit low, with its necessary supplies high.
Leader pricing	If the market leader, add a price premium on preferred product.
Value pricing	Set prices according to customer perceived value.
Bait pricing	Offer an OTC priced low, planning to switch the customer to something higher.
Price lining	Instead of a wide range, offer three product classes at $5, $20, and $100 per unit. Offer discounts for buying a product package.
Price bundling	Bundle products in large quantities and low prices (economies of scale).
Multiple-unit pricing	
Psychological/Image Pricing	
Reference pricing	Offering a low priced generic next to an expensive "reference-priced" original.
Odd and even pricing	Odd prices (*e.g.*, $4.99) indicate low price, while even prices (*e.g.*, $200) indicate prestige.
Prestige pricing	Set very high prices to match a luxury item's prestigious image.
Distribution-Based Pricing	
FOB pricing Delivered pricing	"Free on Board" means an all-inclusive price up to a destination point.
Zone pricing	Price of a product delivered at the customer's warehouse (e.g., hospital pharmacy).
Uniform delivered pricing	Prices set according to regional zones (e.g., north, south, central).
Basing-point pricing	Mail order pharmacies charge a uniform price across the country.
	A manufacturer sells to a wholesaler in Paris, with a London delivery-based price.

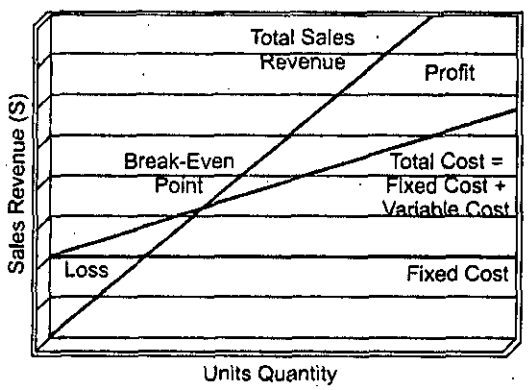

Fig. 2.12 Break-even analysis

Pricing the new products may present problems due to the following facts: (*a*) benefits may not be well known; (*b*) reference products may not exist; (*c*) if a mistake is made, it is easier to lower than to raise the price; and (*d*) product innovation may have value, but eventually disappears. Some of the most commonly used price setting methods follow.

Markup on selling price: a simple pricing method that sets a fixed markup as a percent of the final selling price (*e.g.*, a 25 percent markup on selling at a price of

$100 represents a cost of $75). *Markup on cost:* similar to the markup selling price method, with a markup expressed as a percentage of cost (*e.g.*, a 25 percent markup on a cost of $75 sets the selling price at $93.75). *Cost-plus method:* estimates the total costs required for a quantity to be produced and then adds a reasonable profit margin to set the final price. Similar to the markup on cost where item cost is known. *Average cost method:* applies a desired profit margin on the average cost (*i.e.*, the total costs divided by the total quantity produced). Unfortunately, if only a portion of the produced quantity is sold, final profit margin is severely eroded. *Target return pricing:* After identifying the fixed level cost for a given quantity, a target return is added, setting a target price for the given quantity. Variable costs are then added to each unit to arrive at the final unit price.

Table 2.5 Common Price Discounts in the Pharmaceutical Distribution Chain

Manufacturer Discounts	To Distributor	To Wholesaler	To Retailer	To Hospital
Cash discount		•	•	•
Volume discount		•	•	•
Free delivery	•	•	•	•
Promotional allowance	•	•	•	
Price hold		•	•	•
Extended credit	•	•	•	•
Lower/zero interest	•	•	•	•
Sale or return		•	•	
Package deals		•	•	•
Retrospective rebates		•	•	•

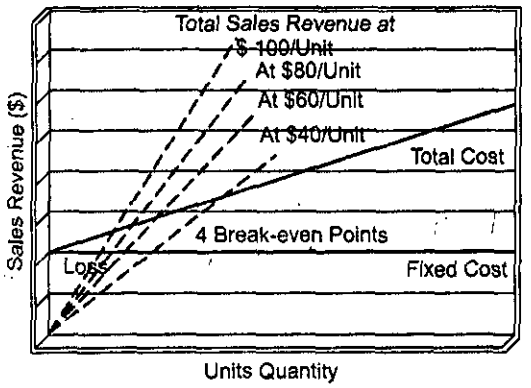

Fig. 2.13 Modified break-even analysis

Break-even analysis is a pricing technique that determines the product quantity the firm must sell at a given price in order to cover total costs. As Figure 2.12 shows, the break-even point is the intersection of the total sales revenue line with the total costs line. At the respective unit quantity, the company is breaking even. *Modified break-even analysis* is a slightly modified technique that determines consumer demand at a variety of prices. It determines the product quantity the firm must sell at a variety of prices in order to cover total costs, and then compares these quantities to the respective expected sales at those prices (see Figures 2.13 and 2.14).

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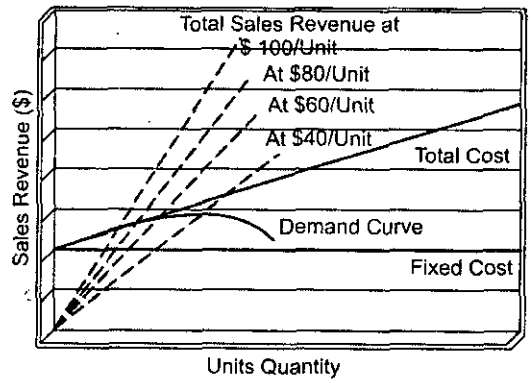

Fig. 2.14 The demand curve at various price levels

2.9 ADJUSTING PRODUCT PRICES WITHIN THE PHARMACEUTICAL SUPPLY CHAIN

A variety of price discounts may be implemented along the pharmaceutical supply chain. Table 2.5 summarizes some of the most common adjustments. Whether or not these discount options can be exercised may be regulated by government restrictions on pharmaceutical pricing.

SUMMARY

- Proper pricing involves matching the price to buyer value. Costs are only partly involved in the pricing process.
- A company's pricing decisions should closely reflect the company's pricing objectives. Pricing objectives, together with the organizations product, distribution, and promotion objectives, constitute the organizations marketing objectives.
- In contrast, the one to the left is less reactive; that is, a smaller demand increase follows the price decrease and is called less elastic.
- Costs provide an indispensable background for the design of a pricing strategy.
- Break-even analysis is a pricing technique that determines the product quantity the firm must sell at a given price in order to cover total costs.

\REVIEW QUESTIONS

1. Discuss the price quality strategy.
2. Discuss the setting of price.

FURTHER READINGS

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PART V: COMMUNICATION STRATEGY

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UNIT I: INTEGRATED COMMUNICATIONS

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- know about the management perceptions of IMC.
- describe the advertising and promotions in IMC.
- explain the advertising agencies in IMC.
- describe the barriers to effective IMC.

1.1 INTRODUCTION

In the world of marketing, there is no question that certain areas that have been practiced in one way or another over the years are suddenly dressed up in new clothes and touted as 'the' new thing. Relationship marketing comes quickly to mind. Marketers always understood (or certainly should have) the importance of sound relationships with their customers, but the mid-1990s saw an inundation of articles in the business press, 'airport books', and even academic work, in the area of 'relationship' marketing. Today, it seems to have morphed into customer relationship marketing, or CRM, and as we shall later see this idea is even informing definitions of IMC.

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Why do we bring this up at the beginning of a book on integrated marketing communication? It is to make the point that unlike many fads in marketing, the idea of IMC really was something new in marketing; at least IMC correctly implemented. In fact, in the twenty or so years since the emergence of the idea of IMC in the mid- to late 1980s, few companies have yet been able to truly implement effective IMC. We shall touch on several of the key reasons why later in this unit. First, however, we need to understand just what is meant by integrated marketing communication or IMC.

1.2 WHAT IS IMC?

We might briefly define IMC as the planning and execution of all types of advertising-like and promotion-like messages selected for a brand, service, or company, in order to meet a common set of communication objectives, or more particularly, to support a single 'positioning'. We believe strongly that the key to IMC is *planning*, and the ability is to deliver a consistent message.

1.3 ORIGINAL DEFINITIONS OF IMC

In 1989, the American Association of Advertising Agencies (known as the Four A' s) formed a task force on integration that was to define IMC from the viewpoint of the Four A' s agencies. The task force came up with this definition of IMC: 'A concept of marketing communications planning that recognizes the added value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines (*e.g.*, general advertising, direct response, sales promotion, and public relations) and combines these disciplines to provide clarity, consistency, and maximum communication impact.'

In the same year, the investment firm Shearson-Lehman Hutton (1989) issued a detailed report on consumer advertising, with special emphasis on diversification into areas that would lead to integration. They concluded that a number of changes at work in the marketplace would force traditional packaged goods marketers to take a much more integrated approach to marketing. They noted that high-involvement non-service products (e.g. automobiles or cruise vacations) where the selling task is more complicated were at that time more apt to use integrated strategies.

In general, the report concluded that the dynamics were in place for a surge in demand for integrated communications from all kinds of advertisers. In their 1993 book *Integrated Marketing Communication* (perhaps the first book to really deal with the subject), Don Schultz and his colleagues talked about IMCs as a new way of looking at the whole where once we only saw parts such as advertising, public relations, sales promotions, purchasing, employee communications and so forth (Schultz et al., 1993). They saw IMC as realigning communications to look at it in the way the consumer sees it, as a flow of information from indistinguishable sources.

They observed that professional communicators have always been condescendingly amused that consumers call everything advertising or public relations. Now they recognize with concern, if not chagrin, that that is exactly the point. It is all one 'thing' to the consumer who sees or hears it. They go on to say that IMC means

talking to people who buy or don' t buy based on what *they* see, hear, feel, and so on, and not just about a product or service. It also means delivering a return on investment, not just spending a budget. This definition 'looks back' at the goals of IMC. We will be looking at IMC largely from a strategic perspective for *planning and implementing* IMC.

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At Northwestern University' s Medill School in the USA (where Schultz was teaching) the curriculum was in fact changed to focus on this new idea of IMC rather than the more traditional programs in advertising. At the time, they offered their own working definition (Schultz, 1993):

'Integrated marketing communications is the process of developing and implementing various forms of persuasive communication programs with customers and prospects over time. The goal of IMC is to influence or directly affect the behaviour of the selected communications audience. IMC considers all sources of brand or company contacts that a customer or prospect has with the product or service as potential delivery channels for future messages. Further, IMC makes use of all forms of communication which are relevant to the customers and prospects, and to which they might be receptive. In sum the IMC process starts with the customer or prospect and then works back to determine and define the forms and methods through which persuasive communications programs should be developed.'

This definition, while more elaborate than ours, is still basically addressing the need for overall communication planning. It is critical to consider IMC as a *process*, not a 'thing'.

1.4 EARLY MANAGEMENT PERCEPTIONS OF IMC

The 1989 Four A' s definition was utilized in a study of large consumer packaged goods advertisers in 1991. The study was conducted among senior marketing executives of major packaged goods advertisers. Based upon the Four A' s definition, two-thirds of the companies interviewed said that they were in fact now integrated. Generally the managers of these companies believed that IMC is a sound idea and that it has real value to their organizations. Most also believed that IMCs programs would increase the overall effect and impact of their marketing communications programs (Caywood et al., 1991).

Many of the questions in the study dealt with the reliance on or participation of advertising agencies in this integration process. While many of the managers believed that they would rely more heavily on outside marketing communications people in the future and that placing their business with one agency would make them a more important client, they were split on whether or not they would actually use the broader range of services which they expected advertising agencies to be offering. Part of this apparent inconsistency might be explained by the relatively strong disagreement these managers had with the proposition that most of the new ideas in marketing communications actually come from advertising agencies.

In fact, the study generally found that advertising agencies would probably *not* be a favorite supplier of IMCs. Many of the advantages that were seen by advertising agencies as reasons for them to be the integrating force for communications programs apparently were either not important to client

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companies or else they were not believed. Managers of these companies tended to feel that agencies that offered a variety of different communications alternatives beyond their traditional role would not necessarily have the highest level of talent across all areas of need. This study seems to indicate that advertisers in the early years of IMC were not convinced that advertising agencies were the best qualified to coordinate an IMC program, or that they could do it more cost effectively. Apparently advertising agencies had not demonstrated in the IMC programs they had been coordinating that using a single agency is the best way to implement an IMC program.

In a 1993 study where IMC was defined as 'the strategic coordination of all messages and media used by an organization to influence its perceived brand value', communication and marketing managers from companies (not advertising agencies or other marketing communication suppliers) were asked how valuable they thought IMC was or could be for their organizations (Duncan and Everett, 1993). The mean answer, based upon a 5-point bipolar scale in which 1 indicates 'very valuable' and 5 indicates 'not at all valuable', was a strong 1.76. A majority of these managers also felt their company would be making more use of IMC over the next 5 years, and they expected their agencies and vendors to work more closely together. There is no doubt that marketing and communications managers in the early 1990s felt that IMC was a valuable concept, and one that would play an increasingly more important role in their companies. Yet after a few years, companies had not yet really begun to put in place the organizational structures needed to implement IMCs programs (Prensky et al., 1996). Marketing managers were in agreement about the need for, and the desirability of IMC, but it was proving difficult.

1.5 MORE RECENT DEFINITION OF IMC

The emphasis in those early days was certainly on *planning*, and to our mind this must remain at the heart of any definition of IMC. But today IMC is more likely to be talked about in terms of 'customer relationships'. In fact, Kotler (2003) has put it in just those terms. He now defines IMC as 'a way of looking at the whole marketing process from the viewpoint of the customer'. Yet only a few years earlier (Kotler et al., 1999) he was defining IMC as 'the concept under which a company carefully integrates and coordinates its many communications channels to deliver a clear, consistent and compelling message about the organization and its products'.

Others have taken this idea of IMC from a customer relationship view a great deal further. Tom Duncan, at the University of Colorado, who like Dan Schultz and his colleagues at Northwestern, was one of the early academics to restructure their advertising programs in terms of IMC, today sees it as *simply put* (our emphasis) a 'process for managing customer relationships that drive brand value' (Duncan, 2002). Nothing 'simple' at all we would argue. In fact, he goes on to say that what this means is that IMC is a 'cross-functional process for creating and nourishing profitable relationships with customers and other stakeholders by strategically controlling or influencing all messages sent to these groups and encouraging data-driven, purposeful dialogue with them'.

There is a lot here in this definition. Of course, marketing is (or should be) about satisfying consumer demand. But we would suggest that the real key here, in terms of IMC, is 'strategically controlling or influencing all messages sent', and

to do that requires strategic planning. Duncan goes on to 'define' the major elements within his definition. The idea of a cross-functional process refers to a need for all parts of a company and vendors working on a particular brand to work together to 'plan and merge all messages a company sends to its target audiences'. We totally agree, but as we shall see, getting everyone involved in a brand' s marketing communication to cooperate is very difficult. Creating and nourishing stakeholder relationships and profitable customer relationships refers to IMC identifying those target audiences most likely to contribute to long-term profit, including both consumers and others with links to a brand (*e.g.* Government regulatory agencies and investors).

Strategically controlling or influencing all messages means that every contact with the market must be consistent, and encouraging purposeful dialogue implies that people want the ability to interact with a company. As we said, there is a lot here in this definition. But in the end, IMC is really all about *planning* in order to deliver a *consistent message.* Effective IMC should certainly encourage strong customer relationships, but it

does that through effective planning in order to develop an integrated communication program that will optimize specific communication objectives that lead to a desired behaviour on the part of a target audience. Actually, after Duncan explains his detailed definition of IMC (as we have reviewed), even he reminds us that *communication* is the foundation of brand relationships and the basic principle of IMC.

Strategies for building strong profitable relationships with customers and other stakeholders is part of the marketing plan, and effective marketing communication should support that plan. We shall leave it to others to discuss IMC in this broader marketing-oriented way. A *strategic* understanding of IMC must be based upon a rigorous planning process that will identify appropriate target audiences, set specific communication objectives for these target audiences, develop marketing communication that will accomplish those objectives in a consistent way, and find the best ways of delivering the message. That is what IMC, and this book, is all about.

1.6 MANAGING IMC

In the early years of IMC thinking, despite the feelings of many marketing managers that advertising agencies may not have been the best planning catalyst for IMC, they did play a major role in providing and managing these initial attempts at integrating marketing communications. A number of very large advertising agencies and agency groups were quite active in this new area of IMC. Such agencies as (then) Saatchi and Saatchi, Young and Rubicam, The Interpublic Group of Companies, WPP Group, Ogilvy and Mather, Leo Burnett Company, and DDB Needham, while all primarily advertising agencies, nevertheless delivered other marketing communication services either from specific divisions, subsidiaries of the groups, or through alliances or joint ventures. They were all selling themselves as able to provide all the services and disciplines a marketer could want for marketing communication.

But even at the time, what they were offering as IMC was not what their clients either wanted or for which they were willing to pay. While 85% of advertisers

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said they wanted IMC services, only a fraction felt their advertising agency would provide it. Major agencies tried to deal with this issue in different ways. Many agencies set up programs to educate their executives in IMCs. Prior to its break-up in 1995, Lintas Campbell-Ewald, a division of The Interpublic Group of Companies, had for several years offered an extensive training program in IMCs for their middle and upper level managers. Y & R launched a worldwide IMCs training program in the early 1990s aimed at educating top executives, with a goal to extend the training program to all agency managers. Leo Burnett, one of the early leaders in the IMCs arena, implemented a new

integrated planning and communications program. Their goal was for all of the Burnett' s then 2000 plus US employees to attend the 6-day seminars. Major advertising agencies may have gotten off to a slow or even wrong start, but there is no doubt that they seemed committed to delivering IMCs for their clients.

Even though the marketing communications industry has always been made up of a variety of specialty groups, almost by default traditional advertising agencies took the lead in the IMCs planning for their clients' brands. The reason was simple. The vast majority of a company' s communication budget was usually with an advertising agency. But today, there has been a virtual explosion in the number of new agencies devoted to some aspect of marketing communication, fueled in a large part by the (unfortunate) trend toward an ever increasing emphasis on promotion, as well as alternative ways of delivering messages such as 'new media'.

Unfortunately, this only complicates the ability to develop and manage sound strategies for IMC. Let us consider for a moment just some of the many groups that could play a role in the creation and delivery of marketing communications. To begin with, there are all of the traditional sources of marketing communication messages such as advertising agencies (everything from full-service agencies to boutiques), sales promotion or collateral agencies, public relations firms, and specialty agencies (e.g. those that deal with trade shows or with event marketing). Add to them corporate identity groups, packaging specialists, branding companies, the increasing number of direct response agencies, and telemarketers. Then there are Internet agencies, new media, and media buying groups (who themselves are playing a greater role in overall communication strategy).

Distribution channels can also have an impact, and not only with trade communications. Retailers certainly play an influencing role via co- programs or through channels marketing. All franchise organizations have participation from franchises in their marketing communications. Soft drink and beer companies have bottlers and distributor networks that frequently have a strong voice in the direction of their brand' s marketing communication.

Then there is the company' s organization itself, which could include any number of departments with some responsibility for marketing communication. And unfortunately, in most cases these departments have their own managers and operate independently of each other. Too many companies still practice vertical rather than horizontal management, and this means departments are often unlikely to even talk with one another let alone work together. Even in large companies where a single group has been created to oversee all marketing communication, and to coordinate the efforts of all outside agencies and suppliers (something essential for effective IMC, we would argue), it is often difficult to rest control

from brand management. Also, there is a long history of tension between the sales force and marketing teams.

Now, multiply all of this by the number of countries where a company markets its brands. While it is not unusual for many marketing communication suppliers to have global networks, it is still a management nightmare. Global IMC must take into account local differences while still maintaining a consistent overall positioning for the brand. One way international marketers try to deal with this is by consolidating all their global marketing communication efforts in one agency with the capacity of handling most of its marketing communication needs, either within the agency itself or through its network of sister organizations.

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But you begin to get the idea. All of this potential input into a company's marketing communication must be controlled and managed in order to ensure a consistent strategy and message. This is not easy, and even with the best of intentions it is difficult to implement effectively. But, if there is to be effective IMC, this problem must be solved. There must be a central source that has *real* responsibility for not only coordinating the efforts of all those involved in the process, but also the authority to make decisions. And perhaps the most important decision they must have the authority to make is how the marketing communication budget is to be allocated.

1.7 THE ROLE OF ADVERTISING AND PROMOTIONS IN IMC

We mentioned earlier that one of the main reasons traditional advertising agencies originally took the lead in managing IMC was because that was where most of the marketing communications money was to be found. But this is all changing. With the increasing short-term focus on the bottom line, promotion-oriented marketing communication is playing an ever larger role, and many companies are questioning the role of advertising today. They shouldn't.

What exactly is the role of advertising in IMC? As we have tried to make clear, IMC is a *planning* concept. So, the easy answer is that traditional advertising 'fits' when and where it makes sense in most effectively communicating with the target audience. But this easy answer will not be very satisfactory to many managers. As Schultz (1995a) once put it, 'An integrated approach to communication planning and implementation does not necessarily reduce the role or value of traditional mass-media advertising'. We agree. In today's world, what is advertising? Television commercials include direct response 800 numbers or ask consumers to look for a coupon in the newspaper – and actually show the coupon. Is this advertising or is it promotion? In the past, advertising has been traditionally delivered via measured media: television, radio, newspaper, magazines, outdoor. But today advertising messages are also delivered through direct marketing and channels marketing (e.g., trade-oriented marketing such as co-programs), areas where in the past one only found promotional messages.

Figure 1.1 is this an advertisement or a promotion for Olympus. It certainly looks like an advert, but the headline delivers a promotion-like message. This is a very good example of an advert-like promotion. It contains a well-executed brand-building advertising message, based upon key benefits of the brand, as well as a promotional offer of a free 2GB memory card, along with a 'praiseworthy new price', all designed to create an immediate intention to buy. Do you think this

was paid for out of the advertising budget or the promotional budget? Would it make a difference?

Not if it was part of an IMC campaign, because it would have been part of the IMC budget. It would have been created because it made good *strategic* sense for the brand as part of its IMCs program. The consumer certainly does not know (or, we suspect, care) what constitutes 'advertising', as we mentioned earlier. In an interesting study conducted in the US by the Leo Burnett agency, 1,000 consumers were called at random and asked what they would call a wide variety of marketing communication forms (Schultz, 1995b). They found that consumers answered 'advertising' to over 100 different forms of marketing communication. Many of the answers indeed would fit most advertising executives' definition of advertising. But what about such things as sweepstakes/contests/games, product catalogs, information brochures, window displays in stores, coupons, bill inserts, and such? Sounds more like traditional promotion, but well over 90% of the consumers interviewed called them 'advertising'. In fact, 92% said product packaging is advertising! Perhaps not surprisingly, consumers seem to see almost every form of marketing communication as advertising.

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Rossiter and Percy (1997) make two interesting points about the role of traditional advertising versus promotion in today' s marketing communication. Addressing the swing to promotion in marketing communication budgets, they point out that in spite of this swing (a) there has been an *increase*, not a decrease in the use of general advertising media in the last decade (from when they were writing in the mid-1990s), and (b) most of the growth in promotion, apart from all-but-required trade promotions, had been *additional* – and most of this in advert-like promotions.

Nevertheless, in traditional terms the rate of advertising growth has basically followed the pace of media inflation, while other areas of non-traditional advertising as well as promotion have experienced real growth. But this second point about advert-like promotions is very important. It is not traditional forms of promotion that are growing, but promotion-oriented messages that are very advertising-like. For example, as Rossiter and Percy point out, direct mail and telemarketing, by far the largest and fastest-growing forms of marketing communication, are generally thought of as promotion rather than advertising. Yet when properly used they are as much advertising, in the sense of building brand awareness and brand equity, as they are promotion in the sense of meeting some short-term sales objective. The same may be said of free standing inserts (FSIs), by far the most widely used way of delivering coupons. In the strictest sense these are promotion-oriented media, and we shall treat them as such in this book. But they are also very *advertisinglike* in their ability to help build awareness and equity for a brand. This blurring of the old distinctions between advertising and promotion is yet another reason for the importance of IMC, because what one might think of as traditional advertising skills now play such a critical role in every form of marketing communication. As we shall see, planning an effective IMC program requires the manager to address strategic creative and media questions that have always been addressed in traditional advertising. These principles are simply being applied to a wider range of options. In IMC, one is setting communication objectives and selecting media to maximize their ability to effectively reach the target market.

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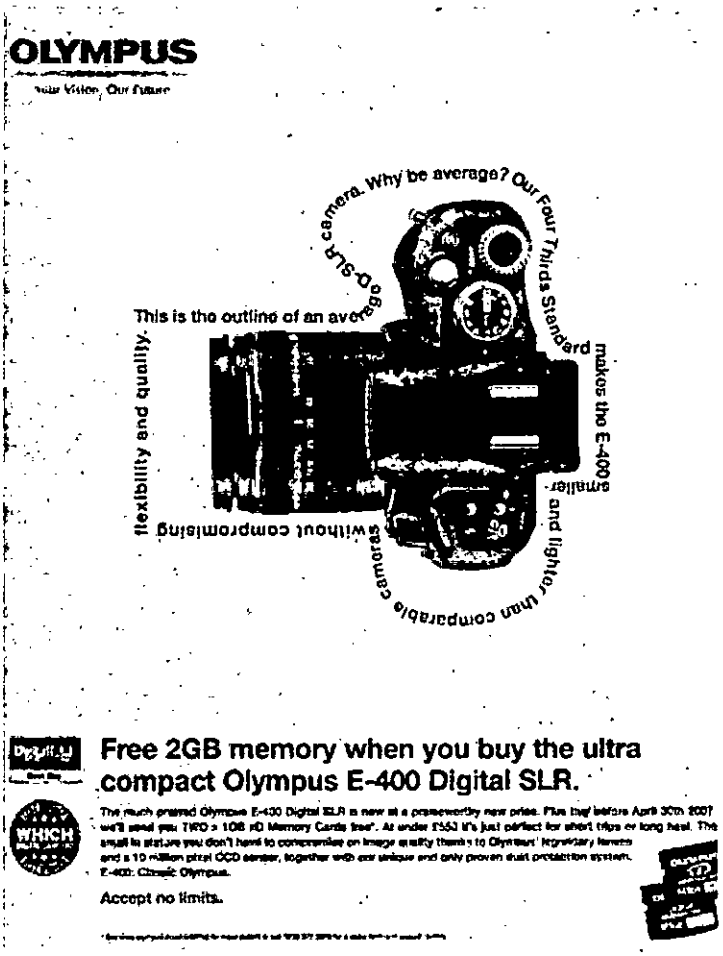

Fig. 1.1 A very good example of an advert-like promotion

But rather than only considering various ways of using advertising, or independently considering some form of promotion, the planning and execution of all marketing communication should be *integrated*. The point is that in the end one may consider any marketing communication that deals with brand building as delivering an advertising-like message, and marketing communication that is looking for short-term action on the part of the target audience as delivering a promotion-like message; and promotions should include advertising-like messages.

As we shall see in later chapters, the fact that marketing communication may be delivered via new media or old, as part of a direct marketing campaign or on the Internet, as an advert or promotion, the strategic foundation for the development and execution of the message remains the same. The brain will process the words and images the same way, regardless of how it is delivered. Sound is sound, words are words, and pictures are pictures to the brain, regardless of where the sense organs find them.

1.8 THE ROLE OF ADVERTISING AGENCIES IN IMC

Because traditional advertising agencies have the experience with advertising-like, brand-building marketing communication, they should have a better sense for what is needed strategically in the planning of all IMC. Most of the new promotion-oriented agencies and media service groups specializing in particular

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areas will simply not have the advertising-like message skills or experience needed to fully integrate the advertising-like message component in their promotions, or IMC planning in general. For this reason, a strong argument could be made for an advertising agency, one with broad resources, to play the primary role in coordinating IMC; always under the client's management. Unfortunately, for many reasons, today' s advertising agencies have fewer resources than they did 20 years ago. But, they are still in a better position for understanding *strategically* what is needed to deliver effective IMC, and to have the relevant creative talent.

1.9 BARRIERS TO EFFECTIVE IMC

Despite the fact that most marketers seem to agree that IMC makes sense, after 20 years there is very little evidence that it is being practiced by many companies. To the extent that it is being used, it is probably most likely to be found among fast moving consumer goods (fmcg companies) operating globally as they look for ways to coordinate their international marketing communication needs.

It should not be assumed by marketing managers that if they are not practicing IMC they are simply not enjoying the potential benefits of it. Without IMC, a brand' s marketing communication could actually be significantly *less* effective. And the more complex the market, the less effective it will be. The lack of IMC, the lack of coordinated communications planning and the delivery of a consistent message, could lead to multiple portrayals of a brand in the market. Even if the positioning is the same, if there is a lack of a consistent look and feel to all of a brand' s marketing communication there will be no synergy or 'lift' from the overall program. With a consistent look and feel, the overall impact of a campaign is much greater than the sum of its parts because the *processing* of each piece of marketing communication is facilitated by the prior processing of other messages in the campaign. When the individual messages being delivered lack this consistency, the processing of each different piece of marketing communication must begin from scratch. A promotion that contains the same general look and feel as the brand' s advertising, which is carried over with the packaging and reflected in in-store merchandising, means that prior exposure to any of these pieces of marketing communication will aid in the processing of the others. If each of these pieces has its own unique look, there will be no prior learning or foundation available when someone sees it. They must process the message on its own. As we shall see in later chapters, getting someone to process marketing communication at all is difficult. Effective IMC helps. In fact, research has shown that there is a link between IMC and increase in sales, market share, and profit (Marketing Week, 2002). So why hasn't IMC been more widely adopted? We like the reason offered by Pickton and Broderick (2005) : it is 'partly due to ignorance, unwillingness and inertia, and partly due to the sheer difficulties of achieving the integration.' Indeed.

Perhaps the single biggest problem revolves around the decisionmaking structure of most marketing organizations. The structure or organ izational make-up of a company or agency, and the way managers think about or approach marketing questions frequently pose problems in trying to implement IMC programs. We shall be looking at this in terms of specific organizational barriers to IMC and an organizations character. Additionally, the issue of compensation is often a serious roadblock to effectively implementing IMC.

Organizational Barriers

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While effective IMC requires coordination among all of a brand' s 'voices', most organizations spend their time developing vertical communications programs. This results in a need for *horizontal* relationships struggling within *vertical* organizations. This leads to problems at the organizational level, where parallel structures, multiple departments, and functional specialties discourage the kind of communication *between* specialties required for IMC planning. This type of problem is epitomized by the brand management concept, and recent moves by some large packaged goods companies to category or channel management is only likely to make the problem worse. IMC requires a central planning expertise in marketing communication. With diffused resources, individual manager relationships with marketing communication agencies and vendors, and (critically) a lack of incentive to cooperate, it is no wonder there are problems when it comes to effectively developing and implementing IMC programs.

Organizational Structure

Although there is a broad agreement among marketing managers over the need for IMC, the very organizational structure of many marketing companies stands in the way of it being effectively implemented. At the core of this problem is an organization' s ability to manage the interrelationships of information and materials among the various agencies and vendors involved in supplying marketing communication services. There are a number of specific structural factors that can make this difficult.

The Low Standing of Marketing Communication in an Organization

Unfortunately, for too many marketers, their marketing communication has a very low priority within the organization. For many in top management, spending money on marketing communication is a luxury that can be afforded only when all else is going well. One of the fastest ways for someone concerned with the financial statement to send large chunks of cash to the bottom line is to not spend budgeted marketing communication money.

With this sort of attitude, it is not surprising that those most responsible for marketing communication occupy lower-level positions within the organization. True, senior management does reserve the right to approve a campaign, and often does. But it would be rare indeed to find senior management involved in the *planning* of marketing communication. Rather, it is generally somewhat junior brand managers (or their equivalent) who do the actual strategic planning, and the results of their work are passed up the management ladder for approval. Even at companies where there are specific managers for advertising or promotion, these managers will have little power within the organization, and almost never final responsibility for the budget. Final decision on the budget will be with those managers doing the actual marketing.

We have always found this very shortsighted. As one brand manager put it (in a personal communication with the author), can you think of any other part of business where decisions involving millions are made with so little senior management involvement? If even half the average packaged goods brand marketing communication budget were going to bricks and mortar, no doubt everyone including the board of directors would be involved!

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Adding to this problem is the trend toward decentralized decision making. With more and more people empowered to make decisions at lower and lower levels, it makes it very difficult, if not impossible, to ensure an IMC program. This is compounded by the tendency to look to specialists when confronted with large or complicated projects.

Specialization

To effectively manage IMC, those in charge ideally will be marketing communication generalists. Yet where do you find such a person in today' s marketing organizations? In fact, what one is most likely to find in companies are people specializing in a particular area; and these specialists rarely talk with each other. They have their own budgets, their own suppliers, and jealously guard the areas they control. The problem becomes even more complex when one considers the marketing communication suppliers these specialists use. Each being a specialist in a particular area (e.g. advertising, direct mail, merchandising), they naturally advocate their own solutions for marketing communication. By their very nature, whether intraorganizational or between suppliers, these specialists will want to keep communications programs separate. Given the narrow focus and understanding of these specialists, it is very difficult to bring them together in the first place, let alone expect them to have the broad understanding of many marketing communication options necessary for effective IMC planning. But even if they did have this understanding, getting them to give up control, especially when it is unlikely to be financially advantageous is a lot to ask. Yet this is precisely what is necessary for IMC to work within an organization.

Organizational Character

In addition to the problems inherent in the way most marketing organizations are structured, there are more intangible aspects of an organization' s thinking and behaviour that also pose problems for implementing IMC. We have just seen how traditional organizational structure can impede the flow of information and ideas within the organization. Because of this type of structural barrier, it is very difficult for an entire company to share a common understanding of that company's marketing communication.

Yet it is important for everyone working in a company to understand and communicate the appropriate 'image' in any marketing communication. Anyone who has contact with customers must reflect the image projected by the company's marketing communications. This means store clerks, sales force, telephone operators, receptionists; all are part of a company' s marketing communication, and hence in many ways are IMC 'media'. Too often only those directly involved with the marketing communication program are familiar with it and this can be a serious problem.

Culture of the Organization

How managers think is conditioned by both their own background and the culture of the company. This potential problem is then compounded in the IMC case when the culture of the marketer must interact with the culture of marketing communication agencies and vendors. Managers from different companies are likely to have different views of what makes effective marketing communication.

This issue is also discussed later when we look at the potential problems inherent in how different managers perceive IMC. Here we are simply considering their general views of things and how that will be tempered by organizational culture.

A great deal of literature on management addresses the idea that an organization will have its own defining culture, and that employees of the firm will absorb that culture. While that culture will not completely determine an individual manager's way of doing things, it will certainly have a significant impact upon its development (Prensky et al., 1996). This leads inevitably to such organizational feelings as 'This is the way we do it' ; 'We' ve always done it this way' ; 'It works for us.' Attitudes such as these can get in the way of integrated thinking and planning, both within an organization and working with outside agencies and vendors.

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Management Perceptions

How managers perceive IMC can often impede the implementation of effective IMC. When managers come from different backgrounds or different marketing communication specialties, either within the marketing organization or at marketing communications agencies or vendors, they are likely to have different perceptions of what constitutes IMCs and the roles various people should play in IMC planning and implemen tation. Additionally, there are strong proprietary feelings among managers toward the 'superiority' of their own specialty within the communication mix.

Because of this, it is not surprising to find that there are any number of notions about how best to go about implementing IMCs. The 1991 study among marketing managers discussed earlier in this chapter found a variety of opinions about how IMC should be achieved (Caywood et al., 1991). Among the managers who said they were familiar with the term 'integrated marketing communications' (a surprisingly low 59%), about 60% seem to look at the responsibility for IMC planning in roughly the same way as we do: 35% felt they would collectively set communication strategies with all of the appropriate agencies and vendors, and then specific assignments would be executed by the best qualified agency or vendor. Another 25% felt they alone were responsible for setting the IMC strategy, but would then make specific assignments to appropriate agencies or vendors, and expect them to coordinate the execution.

We, of course, argue that while the marketer must take the lead in IMC planning, strategy should be worked out among all relevant parties, who then execute creative work guided by the common creative brief(s), coordinated through the marketer. Among the remaining managers, 25% felt that they would work with one agency in setting strategy, and then leave it to the agency to execute everything (the notion of full-service agencies or 'one-stop shopping' encouraged by some advertising agencies); and 7% felt they would set the communication strategy and then have it executed by the individual agency or vendor most appropriate for each task (advertising, direct mail, merchandising, etc.). The remaining 8% held various other opinions.

Resistance to Change

Different perceptions of IMC will certainly mediate effective implementation. But much more troubling is the natural resistance to change that the idea of IMC is likely to trigger, making it difficult to implement despite general acceptance of the

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benefits. The most serious concern is probably a fear that the manager responsible for IMC planning will not fully appreciate someone else' s area of expertise. This is a problem that is especially compounded when advertising takes the lead (which it should in most cases, as we have seen) because of long-held feelings that advertising managers simply do not understand or even consider other means of marketing communications (which unfortunately, is too often the case). This is aggravated by the short-term tactical experience, for example, of those working in promotion versus the more long-term thinking of advertising managers. If employees feel the IMC manager does not fully appreciate their worth, they are certain to worry about where their specialties will fit in department budgeting, and fear their jobs will become less important or even redundant. Such feelings could easily cause resistance to the implementation of IMC planning.

Another way of looking at some of these issues of resistance to change is in terms of both intraorganizational and interorganizational politics. It doesn't matter if the motivation is individual self-interest or actual belief in the superiority of one's way of doing things, the result is the same. People, departments, and organizations want power and the rewards that go with it. Too often managers and their staff believe they will be giving up too much if they implement effective IMCs planning. Compensation is only one aspect of this problem. There are feelings of prestige and position that have in many cases been hard-won, that the combining of responsibilities required by IMC seem to threaten. This can be a very difficult problem.

Financial Emphasis

Another important aspect of the character of an organization that bears upon IMC implementation is the misguided emphasis upon financial rather than consumer considerations in the development of marketing strategy. The attitude of many managers is to let financial considerations drive their thinking when setting marketing objectives, rather than consumer wants or needs. But the consumer should be at the center of IMC planning. IMC requires an understanding of how consumers make decisions and behave, as we shall discuss later in the book. When a marketer's attention is more financially focused than consumer focused, the planning environment will be less likely to successfully nurture IMC.

Identifying IMC Opportunities

It could be said that every opportunity to use marketing communication is an IMC opportunity because all marketing communication should be based upon careful strategic planning in order to ensure a consistent message; and in almost any case more than one way will be required to deliver that message. Remember that *any* communication between a brand and its market is part of its marketing communication. So even if all that is used is a direct mail program, there must be correspondence between the content of the mailing and the envelope it is mailed in; and if there is a package involved, that package should reflect the benefit and imagery contained in the direct mail piece.

If you own a small business in a small town, say a dress shop, and you want to place an advert in the local newspaper announcing a sale, the imagery presented in that advert should be consistent with the image of the shop itself: the type of merchandise, the signage, and the general 'feeling' the customer will experience when visiting the shop. But more often when one is thinking about IMC one is concerned with larger marketing communication programs. Perhaps the single

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best key to identifying a need for an IMC program is the complexity of the market with which one is dealing. The more complex, the more likely it will be that multiple or novel solutions will be required. Many things can contribute to the complexity of a communication problem. The most obvious is multiple communication objectives, but there are others that involve the target audience, the product or service itself, and the distribution of the product or service.

Target audience complexity: There are a number of target audience considerations that lead to complexity in planning and delivering marketing communications. To begin with, the more people involved in the decision process, the more difficult the communication task. In the simple case, where one person plays all of the roles in a decision, such as someone looking for a snack in the afternoon for an energy boost, a straightforward message to a single individual is all that is needed. But as more people become involved in the decision, the potential need for multiple messages through a variety of media or delivery systems increases. This can happen in situations as varied as a family where children are lobbying parents for a special treat to a large company planning to update its

word processing systems in all of its departments.

Product or service complexity: If the product or service is highly technical or innovative, the communication task can be more complex. For example, when a new consumer electronics product is introduced, people need to be made aware of it, and interest stimulated. But they also will want a high level of information to complete what is usually a high involvement decision. If a number of models are available, again the information requirements will be greater. Even with seemingly less complex consumer needs, this opens up opportunities for IMC. For example, dehydrated soups can be marketed as soup or as cooking ingredients, as great for lunch or good to take on a camping trip.

Distribution complexity: An often-overlooked opportunity for IMC can be found in the distribution for a product or service. This goes beyond simple trade promotions. Many delivery systems have a great deal of influence on a brand being chosen. A good example would be travel agents, who almost always will have a significant influence on everything from minor considerations such as what hotel to stay at or what car to rent, to a major decision such as what cruise line to select for a Caribbean cruise.

SUMMARY

- The task force came up with this definition of IMC: 'A concept of marketing communications planning that recognizes the added value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines
- Integrated marketing communications is the process of developing and implementing various forms of persuasive communication programs with customers and prospects over time
- Strategically controlling or influencing all messages means that every contact with the market must be consistent, and encouraging purposeful dialogue implies that people want the ability to interact with a company.
- The point is that in the end one may consider any marketing communication that deals with brand building as delivering an advertising-like message, and marketing communication

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REVIEW QUESTIONS

1. How would you define IMC?
2. Discuss why you feel recent definitions of IMC are or are not an improvement upon earlier definitions?
3. What is required for effective management of IMC?
4. How is the trade involved in a brand's IMC?
5. What are the unique roles of advertising and promotion in IMC strategy?
6. Why is it so difficult to implement effective IMC?
7. How can the barriers to IMC be overcome?
8. Identify companies you believe practice IMC, based upon their marketing communication, and discuss what it is about their marketing communication that makes you say that.
9. What are the important keys to identifying IMC opportunities for a brand?
10. Is IMC appropriate for all brands?

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UNIT II: PERSONAL SELLING

NOTES

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe the importance of personal selling.
- know about the changing roles of persons sales.
- explain the diversity selling situations.
- describe the activities in sales situations.

2.1 INTRODUCTION

The terms 'personal selling' and 'Salesmanship' are often used without distinction. However there are some vital differences between the two terms. Salesmanship is Seller initiated effort, that provides prospective buyers with information and motivates them to make favourable decisions concerning the seller's products or services. 'Personal Selling' is a highly distinctive form of promotion. It is basically a two way communication involving not only individual but social behaviour also. It aims at bringing the right products to the right customers. It takes several forms. including calls by company's sales representative, assistance by a sales clerk, an informal invitation from one company executive to another. It is employed for the purpose of creating produce awareness, stimulating interest, developing brand preference, negotiating price etc.

Thus keeping in view the diversified nature of personal selling, we would discuss in this unit the. growing importance of personal selling, its changing role, functions and process.

2.2 THE GROWING IMPORTANCE OF PERSONAL SELLING

The increase in complexity of products has increased the importance of personal selling. Manufacturers of highly technical products such as computers, electronic typewriters, digital phones, microwave kitchen appliances, remote control

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equipments etc. depend more heavily on personal selling than do grocery or toiletry products manufacturers.

Ever growing competition from, domestic and foreign sources have also increased the importance of sales persons in the marketing effort of a firm. In personal selling company's sales persons are often referred to as sales representative, salesman or sales girl they remain on the company's payroll or work on commission basis or both to push the product in the market by positively motivating the prospective customer through oral presentation or demonstrating the product in question.

Consumers want all sorts of goods and services but inertia may keep them from buying. Sales efforts stimulate the consumption process by reducing people's inherent reluctance to make purchase decision. In fact sales person act as catalyst in the market place.

When the nature of the product is such that the buyer needs special information in order to use it properly, sales representative acts as a consultant to consumer, to apprise them of products technicalities and usage. Sales persons also work out the details of manner and timing of given physical possession.

In case of industrial products, the promotion mix mostly consist of personal selling rather than advertising. Being high value and complex product, personal contact with the customer is essential to convince him of the product's quality and utility.

On the other hand, consumer product companies use personal selling together with advertising, to influence prospect to try their brand. But tersonal selling in this case cannot substitute for advertising, it can only be used tactically to intensify marketing effort, mainly because it is expensive.

Personal selling is more effective during product launching stage. For example: McDowell, used personal selling tactics during launching of soft drink "SPRINT" in Delhi.

Similarly Eureka Forbes a manufacturer of appliances which includes vacuum cleaner and a number of home care appliances adopted personal selling for its premium product vacuum cleaners. Since the vacuum cleaner is a high value product and the concept is fairly new to the Indian market, demonstration is necessary to convince buyers, and personal selling has successfully achieved this. Other Companies *e.g.* Johnson and. Johnson for its product in the so called 'embarrassment' category, like sanitary napkins or contraceptive used personal selling successfully.

During the product launching stage companies selling products like Richbru Coffee, Signal Toothpaste, Surf, Dalda etc. utilised personal selling efforts. The importance of Personal Selling in the Indian context stands out due to the following factors:

- In the absence of the availability of all India media many companies find it expedient to extensively use personal selling to achieve their promotional objectives.
- Companies which cannot afford a large outlay for advertising on a regular basis also find personal selling a more reliable method.
- The vast network of our distribution system needs the support of the manufacturer sales force for market combing as well as development.
- Low levels of literacy and lack of adequate customer education regarding various products, make personal selling a very effective method in product adoption particularly in the rural markets.

- Orientation of Indian Consumers are such that they want the best value for their money, owing to high marginal value of rupee, which necessitates personal selling.The factors discussed above individually or in combination make personal selling an integral part of the communication mix of the company.

2.3 SITUATIONS CONDUCIVE FOR PERSONAL SELLING

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In certain marketing situations, personal selling provides an effective and efficient solution to most of the selling problems. However its economic efficiency relative to other element of the marketing mix needs to be thoroughly appraised. Now we will discuss some of the situations when personal selling in a company becomes more relevant.

Product Situation

Personal Selling is relatively more effective and economical in case:

- When a product is of a high unit value like xeroxing machine, computers etc.
- When a product is in the introductory state of its life cycle and require creation of core demand.
- A product requires personal attention to match specific consumer needs e.g. insurance policy.
- Product requires demonstration e.g. most of the industrial products.
- Product requires after-sales service.
- Product has no brand loyalty or very poor brand loyalty.

Market Situation

Personal selling situation can be best utilised when:

- A company is selling to a small number of large-size buyers.
- A company sells in a small-local market or in government or institutional market.
- Desired middle men or agents are not available.
- An indirect channel of distribution is used for selling to merchant-middlemen only.

Company Situation

Personal selling is relatively more effective and economical when:

- The company is not in a position to identify and make use of suitable non-personal communication media.
- A company cannot afford to have a large and regular advertising, outlay.

Consumer Behaviour Situation

Personal selling is more effective when:

- Purchases are valuable but infrequent.
- Consumer needs instant answers to his questions.
- Consumer requires persuasion and follow-up in the face of competitive pressures.

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2.4 THE CHANGING ROLES OF SALES PERSONS

Now we would discuss, the changing role of sales persons. Owing to the increasing importance of personal selling in recent times, the concept of personal salesman has undergone a seachange from a fast talker to consultant.

Now before discussing the selling styles one point should be noted that only well-developed and established companies have reached to consultant stage level, every selling task does not require this. Still one or more than one strategies of personal selling discussed here are used in Indian companies. Table 2.1 shows-the activities relevant to the use of each strategy.

Table 2.1 The Changing Roles of the Sales Representative

Strategies for Selling	Activities
Business Management	• Manage accounts and Territory strategies as a strategic business unit
	• Invest time and expenses in the most profitable opportunities
	• Sell to meet the clients total system and long term needs. Be a consultant
Client Profit-Planning	• Become part of the clients' plan
Strategies	• Expand to other department
	• Find new uses for your product
	• Services are an important part of the offer at this point.
	• The customer become a client.
	• Perceive, classify and serve the customer's needs.
Negotiation Strategies	• The product is adjusted to meet the customer's need.
	• The representative understands the immediate and narrow needs of the customers.
Persuasion Strategies	• The representative tries to fit the customers into the existing product mix by skillfully overcoming objections.
Communication Strategies	• The representative is a personal communicator, providing product and service information close to the point of the buying decision

Communication Strategies

At the lowest level of personal selling, the sales representative is an alternate medium for communicating information about the product or service offered by company. The only strategy appropriate for increasing sales at this level is walking more and talking more. There is little reason to use representatives as a communication medium when there are alternative mass communication media like press, radio, television available.

Persuasion Strategies

The persuasion level requires the sales representatives to go beyond the role of a mere communicator to the role of understanding at least. the immediate and

narrow needs of the customers. At this stage, the sales representative tries to fit the customer into the existing product or service mix by skillfully anticipating and overcoming objection. This is what Indian market is experiencing.

Negotiation Strategies

During negotiation, the product and commercial terms are adjusted to meet the customer's needs rather than just attempting to skillfully overcoming objections as practiced in previous stages. The critical skill at this stage of selling is analysing and understanding the customer needs and determining how the company's products and services can meet these needs. At this point, the customer becomes a client and the process of consultative selling begins.

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Client Profit-planning Strategies

In India, client profit-planning strategy is applicable in industrial product selling. The representative is put to work with clients team to learn about profit-planning system, product, finance, marketing, research and development and future plans etc. so that the product meeting the client's needs could be developed.

Business Management Strategies

At this stage professional representative is responsible for managing territory as a strategic business unit-investing time and expenses in most profitable manner. Few Indian Companies are using a system of national account management (like Modi Xerox) in which manager is responsible for all sales to a few key accounts. Territory representatives along with sales managers and accounts managers develop business strategies and bottom line responsibility to meet objectives of the organisation.

2.5 DIVERSITY SELLING SITUATIONS

All of us being consumers often come across variety of selling situations. Differences in marketing factors cause each company to have individualised selling styles. Each different type of selling job requires the sales person-to perform' a variety of different tasks and activities under different circumstances. The job of a soft drink driver salesperson who calls in routine fashion on a number of retail stores is different from that of a computer sales person who sells a system for managing information to executive of a consultancy firm.

Before categorising sales persons into basic selling styles, one convenient way to classify, the many different types of sales job is to array them on the basis of the creative skill required in the job, from simple service - or repeat order selling to the complex developmental selling. Let us now discuss the different kinds of selling positions prevalent 'in Indian companies.

Delivery Sales Person

The primary job of the delivery sales person is to deliver the product e.g., soft drink, bread, milk etc. The selling responsibilities are secondary. Good service and a pleasant personality may lead to more sales.

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Inside Order Taker

The retail sales person standing behind a counter is an inside order taker. The customer comes to the sales person with the intention to buy a product or service, the sales person only serves him or her. The sales person may use suggestion selling but ordinarily cannot do much more.

Outside Order Taker

The soap or spices sales person calling on retailer is an outside order taker. They do little creative selling. In contract with store personnel these representatives actually may be discouraged from doing any hard selling. That task is left to executives higher in the hierarchy.

Missionary Sales People

These sales persons we not expected or permitted to solicit an order. Their job is to build goodwill or to educate actual or potential user or provide services for the customers, as in the case of Medical representatives, working for the pharmaceutical company.

Creative Sales Person of Tangible Products

In sales job it is often difficult to conduct creative selling for tangible product such as vacuum cleaners, Automobiles, Airplanes, encyclopaedias etc. The job happens to be difficult because the customers may not be aware of their need for the product or they may not realise how new products can satisfy their wants better than those they are presently using. When the product is of a technical nature, this category may overlap that of the Sales Engineer.

Creative Sales Person of Intangible Product

Saws of intangible products such as insurance, advertising services, consulting services, communication systems or educational programmes, require creativity of sales person to handle me situation. Generally selling the intangible products is difficult as their benefits cannot be demonstrated tangibly.

From the above mentioned variety of sales job it, is clear that different sales position require different amount and kinds of skills. In today's market where self service stores and counters have made the selling task easier, technically developed products or intangible items require greater amount of creativity and perseverance, on the part of sales person. To facilitate an understanding of the various roles of sakes person, they can be grouped into four task specific determinants such as, consultative, technical commercial and direct sales.

Consultative Sales

Consultative sales are characterised by the product or service that is sold at the higher level of an organisation e.g. computer system or management consultancy service. The decision to purchase such products involves higher capital outlay thus sales job requires a low key, low pressure approach by the sales person. It would also require a very strong knowledge about product, patience to discuss product with several people of organisation and potential benefits to the user. Even at times when the progress of sales slows down representative has to make

creative and sensitive efforts to resume interest but without appearing to exert pressure on the prospect.

Technical Sales

The most distinctive characteristic of technical sales is the product knowledge required by its sales person, unlike the consultative sales, where sophistication in organisation relationship and persuasive ability we sales persons' most valuable assets. Even time required to sell the product is relatively less than consultative sales.

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Most of the technical purchasing requires approval of several people but only one or two pups with technical knowledge influence decision. If the sales representative is able to satisfy; these people with product characteristics, application, installation process approval from higher management is usually forthcoming. The technical sales persons though not strangers to the process of making a sale, are trained to utilise the rational approach; by going into details of product utility and features.

Commercial Sales

This field generally includes non-technical sales to business, industry, government and non-profit organisation e.g., office equipment, wholesale goods, building products, business services and others. Unlike the previous two types, it is customary for the commercial sales person to make sales on first or second call. The process stresses approach to right person (decision maker), making a smooth presentation and closing the sales.

The field is composed of order takers, to follow up and maintenance of accounts and order getter, to develop new accounts. Since these require different approaches, they normally require different personality traits e.g. the order getter are more aggressive and more highly motivated.

Direct Sales

Direct sales are primarily concerned with the sales of products and services to ultimate consumers e.g. restaurants, door to door sales, insurance, encyclopaedias, magazines etc. There is normally some emotional appeal associated with this type of selling, thus sales persons are required to possess strong persuasive ability. Often length of time to close sales is shortest in the case of above product categories. In fact, sales persons are trained to close the sales on the first visit because it is felt if consumers are given time, they will either cool off from buying or will buy from competitor.

2.6 QUALITIES OF A, GOOD SALES PERSONNEL

Some people says salesmen are born salesmen, while others believe that training can help in making good salesmen. Irrespective of these opinions, good salesman has certain qualities and abilities as a result he is able to perform better than others. In this section we would discuss qualities of a good sales person. Philip Kolter has identified two basic qualities of a good sales person namely, empathy and persuasion. But others have listed more. Some of the qualities of a good sales person are as follows:

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1. *Ability to estimate customer's needs and desires:* He is alert and quickly determines what the customer wants and the best way to sell.
2. *Ambition:* He likes to do a good job and is interested in getting ahead with your company.
3. *Appearance:* Appearances mean a lot toady and the successful salesman is neat and organised. He presents himself well in person. Also, he keeps his desk. books and manuals neat and ready for use.
4. *Business Sense:* He understands that you are in business to make a profit and quickly learns the ins- and -outs of your organisation.
5. *Courtesy:* He reveals a sincere desire to help customers and treats them as guests even when he visits their places of business.
6. *Creativeness:* Imagination, vision and the ability to create ideas make your man dynamic.
7. *Curiosity:* He wants to learn all he can about his job, his products and his customers.
8. *Enthusiasm:* There is nothing that can drain away a prospect's buying interest more than a half-dead salesman. Dullness should be left at home. A salesman must radiate enthusiasm during and after the sales call.
9. *Figure Sense:* He should have the mathematical ability to figure and fill up order form correctly and to make the necessary reports.
10. *Flexibility:* A good salesman is able to adapt himself to a variety of customers. Each contact may require a adapting the sales talk, speech habits and even appearance.
11. *Friendliness:* A salesman should be able to make people like him and he must like to meet people.
12. *Handwriting:* He must write legibly so that his paper work can be readily understood by his office people and by his customers.
13. *Health:* Good health generates energy and energy is needed to sell. Poor health prevents many salesmen from fulfilling their potentials.
14. *Integrity:* A salesman must be trusted to do his job well. He cannot help but he successful when his customers trust him.
15. *Interest in his job:* He likes selling and working for your company..
16. *Knowledge:* In some business, an applicant must also have a through knowledge of the highly specialized products or services his employer offers. In some cases, this knowledge can be gained only by years of experience.
17. *Loyalty:* He must be able to impress upon his customers the idea that his company is the best in the business.
18. *Mental abilities:* He has the intelligence to understand your products and those of your competitors. He must know how to use words, to understand and direct people' and to remember names and faces. He should also be able to understand prospective customers and know how to act under varying conditions.
19. *Motivation:* He must have more than just an interest is selling. Psychologists have found certain predominant patterns in men who have become realty successfully sales men. They live in the present and not in the future. They do. want power over others and prefer not to work under close supervision.
20. *Originality:* He is constantly searching for new ideas to be used in selling your products and will suggest better ways of doing things.

21. *Persuasiveness:* Very few products of any type actually sell themselves. They must be sold. Your man must have the ability to get people to agree, There are situations when persuasiveness may vary keeping in view the consumer's response.
22. *Poise:* His maturity is reflected in his behaviour. He should be positive and confident, energetic and businesslike. He should be able to demonstrate to your customers that he knows what he is talking about.
23. *Self-starter:* Your man works well without constant supervision and is able to make decisions on his own.
24. *Speech:* He can speak clearly and maturely in a natural tone. He can emphasize sales points with sincerity and friendliness.

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2.7 THE SCOPE OF ACTIVITIES IN SALES SITUATIONS

A typical day in a sales person's life includes making certain number of calls, opening of new accounts, analysing the account lost, if any, sales presentation, closing of initiated sales preparing daily reports and keeping records of transactions. We would now discuss. some of the important activities.

Problem Solving Activity for the Customer

Problem solving requires substantial knowledge and decision making skill. In the case where prospective. customers are not aware of utility of products or services in question, there is a problem. The sales person can contribute by identifying and suggesting best solution for it. In many sales situations, these activities make up a substantial part of the total sales effort.

Co-ordinating Buyers and Sellers Activities

With the multifarious and complex system of todays business situation there is a need for a catalyst to bring together and work with the parallel departments of supplier and customer. Most of the sales persons are in position to perform this function.

Attending Conventions

In conventions organised by company, sales persons interact with their peers about work situations and problems and arrive at a consensus of opinion on issues which impinge on their work. Conventions range in nature from company convention to industry-, convention. They may be local, national or international in nature. These are important motivational and inspirational tools for the sales persons whose broad purposes are to:

- Provide strength to the sales persons identity with the company to executive.
- Exchange information with sales persons.
- Provide specialised training.
- Provide sales persons with a change of pace.

Attending Trade Show

Trade shows are held seasonally or annually. Sales persons usually attend these trade fair not only to achieve sales, but also to understand competition's products

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and prices. Technological advancement in different area is also communicated to them through these trade shows. Ever since Trade Fair Authority of India has been set up various types of fairs and exhibitions including the Annual India International Trade Fair are being held more regularly.

Attending Educational Workshops

Many lines of sales work afford the opportunity for continued formal education throughout a career. Many companies like NTPC, GNGC, TISC®, etc. require their sales persons to follow a continued programme of studies in addition to company training.

Keeping Records

The job of sales person is not finished until the paper work is completed. A sales person has to prepare daily call reports including new accounts opening report, account closing reports etc. It is understandable that these records not only keep track of their day to day activities, but also provide past and present data to undertake any future assessment.

SUMMARY

- When the nature of the product is such that the buyer needs special information, in order to use it properly, sales representative acts as a consultant to consumer, to apprise them of products technicalities and usage.
- At the lowest level of personal selling, the sales representative is an alternate medium for communicating information about the product or service offered by company.
- Appearances mean a lot today and the successful salesman is neat and organised.

REVIEW QUESTIONS

1. Do you agree that a sales job requires a degree of mental. Toughness and physical stamina rarely demanded in other types of job? Discuss.
2. To what extent do the nature of the product, target market, company resources influence the sales job. Explain.
3. Discuss the changing role of personal selling.
4. In the changing market situation, it is often referred to that sales persons are in better position than past. Do you agree with this statement ? Justify your answer.

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UNIT III: ADVERTISING

★ STRUCTURE ★

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LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe the nature of advertising.
- know what is scope of advertising?
- explain the types of advertising

3.1 INTRODUCTION

Advertising forms one component of the promotion mix. It has become very popular and useful and has reached the status of an independent discipline. It has grown at a very fast pace and has become a special field of study.

Promotion Mix consists of:

(*i*) *Advertising:* It is a non-paid personal form of presentation and promotion of ideas, goods services by an identified sponsor.

(*ii*) *Personal selling:* It is an oral presentation for the purpose of sale.

(*iii*) *Sales promotion:* It is an immediate inducement that adds extra value to the product.

(*iv*) *Publicity:* It is the management of functions, that helps public to understand the policies of the organization.

In this chapter, we shall deal extensively with Advertising only. It has been derived from the latin word '*Adverto*' which means to turn around, to draw attention to any subject or purpose.

Definition

It is a paid and non-personal form of presentation and promotion of ideas, goods or services by an identified sponsor. There is also an identified Media and message behind every advertisement. The advertiser tries to spread his message and ideas to the prospective customers and diffuse information into them. By this method, he tries to popularise the products/services which is the basic aim of the activity.

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3.2 NATURE OF ADVERTISING

Advertising is an important element of Promotion Mix and it is a process which gives information to the masses about products/services. It is a paid publicity sponsored by the advertiser. It is a persuasion which is controlled and influences the target audience. Its nature includes:

(*i*) **Element** of marketing Mix. It is also an important element of marketing Mix which includes the 4 Ps—Price, Product, Promotion and Physical distribution. A proper Promotion Mix is necessary for the advertisement to be effective.

(*ii*) **Promotion mix:** The elements of promotion mix includes, Advertising, Sales, Promotion, Personal Selling and Publicity. All these have been described in detail in the ensuring text.

Personal selling involves carrying of the messages of the product to consumers by individual salesman and make them purchase the product.

Sales promotion: It is the technique of motivating the customers to purchase the product. The motivation is brought about by offering cash discount, tax deduction, free items and other incentives. Sales promotion adds value to the product *"Buy two take one free"* etc.

Publicity is not paid by the sponsor. Publicity comes automatically. It can be positive or negative publicity on which the individual or the incident publicised has no control.

Mass communication: It informs not one person but a group of persons who may be the prospects of purchase. The mass communication media includes radio, television, newspapers, magazine etc. Print media and audio and audio-visual media is extensively used.

Message: These are carriers of advertisement which inspires customers to purchase a product. Message writing or copy writing is an art and a lot of effort and money is put into it. The colour, design, structure of the message is given great importance.

Advertising agency undertakes the writing of the message and charges for the same. It helps the advertiser in all possible ways and integrates its effort with that of the company or the advertiser.

Sponsor is a person who pays for the advertisement. He is identified and discloses the ideas, message and information to be advertised.

Persuasion: The message is persuasive and informative. It is creative as well. The message attracts the attention of the audience. It is an essential factor in advertising.

Control: The time, place, message and direction of advertising is controlled to make it effective and purposive. Advertisement can be controlled but publicity cannot.

Identifiable: The message and presentation should be recognised by receivers and customers.

Target group: Advertising aims at a target group of audience, while framing an advertisement target groups are considered. However, it can reach both target and non-target groups.

3.3 SCOPE OF ADVERTISING

"The scope of Advertising is increasing everyday" Advertising has a very wide scope in marketing and in the social system. The scope of advertising is described on the basis of activities included under advertising and their forms and systems, objectives and functions. These include the

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Message—which has been discussed earlier.

Media—has also been discussed in detail.

Merchandise—It is the buying and selling of the product-advertisement covers the attributes of the product to be sold. The outstanding qualities of the product should be assessed and exposed with emphasis. New and existing products are advertised to popularise them. A firm is considered as an important source of advertising.

Advertising Functions

No product can be sold without some form of advertising.

- Advertising creates demand.
- Promotes marketing system.
- Helps middleman.
- Builds image for the organisation.
- Makes customer aware of the price and attributes of the product leading to greater sales.
- Brings awareness in the masses.
- Consumer demand can be assessed by marketing researchers and advertising research.
- It helps in expanding the market.
- It helps the middleman to easily sell the product.
- It brings customers and sellers together.
- Advertisement is economical when targeted at the masses.

Advertiser is the most important person as he is the customer and spends money on it. He gives employment to a lot of people and supports the advertising agencies. The advertiser also has a great social responsibility to create a sound social and economic system.

Objective. The advertising objectives are many in number and dealt later in this book. However, we shall mention a few:

- To increase sale.
- To create awareness and interest.
- Establishing and sustaining the product.
- To help middleman.
- To persuade, to remain and inform the masses.

Activities. The activities included are mass communication, carrying message, image building. It also persuades and reminds. The activities should be performed regularly and economically.

Art & Science. Management is both an art and science and Advertisement being a part of marketing is also an art. It creates, it requires experience. It is a science

because it is based on certain social-psychological factors. Cause and effect relationship are studied in advertising.

The effect of advertising is also studied by experimentation. The results of advertising can be measured. It is tested on scientific principle as well. Therefore, we see that the scope of advertising is large and varied.

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Different Dimensions of Advertising

There are a number of books written on advertising and they cover different dimensions.

(*a*) **Social dimension of advertising:** It informs the society of various products available, their technology, uses and how the society can benefit from new innovations, like credit cards, debit cards, golden cards, global cards, mobile phones, travel offers etc. Advertising also educates the people and the society against hazards of life. Cancer, *"Smoking is injurious to health"*, hazardous driving, *"Better late than never"*. Similarly, we have drive against pollution, against population explosion etc. Advertising should not deceive the society. It should not manipulate the consumers against their will. They can get exploited by sex appeal.

(*b*) **Economic dimensions:** A lot of money is spent on advertising specially when expensive Media like T.V. is used to spread the message. There are various media which can be used. A lot of employment is generated as people get involved in copy writing mission, Message, Media, Money, Measurement of advertising effectiveness etc. are coordinated. The most important thing to consider is how much money is to be spent on various campaigns.

Advertising makes the consumer aware of products and services and provides information for making right decisions. It can encourage consumption and foster economic growth. Advertising makes entry possible for products and brands into the market. With larger demand it leads to economies of scale in production, marketing and in distribution.

(*c*) **Psycological aspects:** One aspect of psycological advertising is that drinking of Alcohol, Beer, Wine should not be targeted on the children or those below the age of 21. Women in society are also critical about obsence ads and promoting sexual permissiveness in the advertisement *i.e.,* Calvin Klein. There is a lot of criticism on advertising against sexual appeals and nudity. They demean women as being sex objects. Such ads can be for cosmetics Lingerie and other products used by women.

When a consumer tries to buy a product. He has a lot of choices before him. He gets guided by the family, by friends, by advertisements, by salesperson and the consumer gets confused and often feels that he has made a wrong choice. He undergoes both pre and post purchase dissonance and the marketeer tries to remove his anxiety by reinforcing his choice.

(*d*) **Communication task:** Advertising communicates and captures the attention of the buyer. It communicates through stories, through episodes, through tables and charts. The communication must be interpreted in the same manner that it is intended. It also brings attitudinal changes and changes the faiths and beliefs of the consumer.

(*e*) **Triangle of communication:** The triangle shows that the advertiser has resources which helps him to create messages. These messages reach the audience with the help of a media. The audience is exposed to the message to a certain extent and also gets distracted by many factors like noise and other work. The audience then responds to the message and the feed back goes to the advertiser. This leads to researches by the advertiser and his agency.

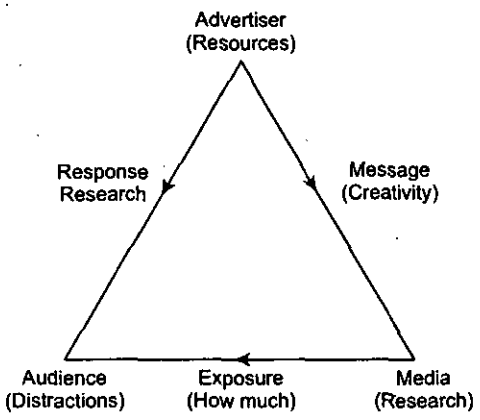

Fig. 3.1

3.4 TYPES OF ADVERTISING

Ethical Advertising

Advertising must follow certain moral principle, certain rules and should not degrade or adversely comment on the other products and brands. It should highlight the positive points of its own products and be of good standard. It should not be offensive and in bad taste. It should not predict the sex of an unborn child and keep away from the unwanted practices adopted by the advertisers.

Advertising should not be untruthful, deceptive and should not misguide the consumers. Some companies advertise about their 2 wheelers and 4 wheelers vehicle that they will cover amount of kms per litre when in practice the kms covered are much less. The customer gets deceived by these advertisements. Sometimes, advertisers have made false claims or failed to award prizes promised in sweepstakes or contests.

The problem of untruthful advertising and promotion exists at the local level and in specific areas such as mail order, telemarketing and other forms of direct marketing. Advertising should:

(*i*) Be truthful, should reveal the truth and significant facts.

(*ii*) Substantiative should substantiate with proofs *e.g.*, Kapil Dev *"Boost is the secret of my energy"*.

(*iii*) Be non-comparative.

(*iv*) Give real and true guarantees

(*v*) Avoid false claims

(*vi*) Adhere to taste and decency. Should keep away from offensive and untrue publicity.

Informative Advertising

This gives information about the products, their features, their style, their value, price and availability. It educates the customer of its nutritional values *e.g.*, Yogurt has low chloestrol, Soffola refined oil has less fat and more nutritional value.

Persuasive Advertising

It is done to persuade the customer to buy the advertiser's products. In this there are many ways of persuading the consumer. If a person has outside work and is mainly engaged in outside activities, he is persuaded to buy a cell phone (Mobile)

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so that he is well informed even when he is out of the office. Earning members of the family are persuaded to buy insurance policies, not only for themselves, but also for the safety of their family members. People are persuaded to buy safety alarms for their houses, for their cars as a measure of security. People are also persuaded to keep firearms for their safety. Other products that sell on persuation could be flashlights, cameras, dictaphones etc. Persuasive advertising is done in the nature part of PLC and it often lead to Comparative Advertising. While persuading the customer to buy the advertiser's products, statistics and performance of other products in general are also shown, so that the customer makes a choice. An example of comparative advertising in McDonald v/s Burger King, Pepsi v/s Coca Cola.

Reminder advertising: This is done with mature products like cocacola and mature products of Hindustan Lever Ltd etc. This is done at the maturity stage of the PLC (Product life cycle). This is done with great frequency. Many advertisement are released in a short period of time so that the consumer is reminded of the product and its benefits constantly and at short intervals of time.

Consumer advertising: The campaign is directed at the end user *i.e.,* consumer. It is usually found in newspapers and magazines. It uses headlines, illustration etc., and is a major source of revenue to newspapers and magazines.

Trade advertising: This is directed at the whole salers, distributors and retailers. The goal is to encourage channel, members to stock promote and resell the manufacturer's products to customers. Channel members are also given incentive for the same.

Advertising for image building: Sometimes advertising is done for building the image of the company. This is done by highlighting their social responsibilities. To build an image the company keeps in mind the factors of pollution and safety. It keeps away from harmful activities. Pays attention on the quality of goods, price and availability of the products.

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Advertising for positioning: The company positions its product to a target audience by juggling its marketing mix. The performance of the sales is analysed and the product is compared with other leading products and is positioned by modifying the product and price to compete with them. This is also done by perceptual mapping technique.

Advertising for attitudinal change: The main aim of advertising is to bring attitudinal changes in the minds of the consumer. It is done by imparting knowledge to the consumer. His emotions are touched and played with the feeling of likes and dislikes towards objects, are handled in a manner that leads to action/ purchase.

Reinforcement advertising: Also known as Repetitive Advertising and the frequency of the advertising is increased.

Retention advertising: It is done in the last stage of PLC when the product is in the decline stage and has to be revived.

Collective advertising: For example, SAIL eggs and milk being advertised collectively. Two products are being advertised together to get the advantage cost and area etc.

Cooperative advertising: This is done jointly by the manufacturer and dealers. They share the media cost and both get benefitted.

End product advertising: The end product of one manufacturer which is used to produce branded goods of other manufacturer *i.e.,* Tafflon is advertised and used in the end products like frypan and cooking vessels. The advertisement of such products is known as end product advertising. Another example is the Intel which promotes its pentium processors.

Direct response advertising: The consumer is encouraged to make response either by phone or letter or on E-mail by just watching the advertisement. The advertiser is provided with free toll phone services. These days Ab King Pro and butterfly Abs are being advertised on T.V. and the prospects are requested to give a direct response and place an order on phone.

Classisifed advertising: Are small adds in about 20 to 30 words in newspapers. They are economical and can be repeated. These are given under specific heads like services, products, rentals etc. It can be given for Autos, matrimonials, domestic help business opportunities etc.

SUMMARY

- Advertising is an important element of Promotion Mix and it is a process which gives information to the masses about products/services.
- Sponsor is a person who pays for the advertisement. He is identified and discloses the ideas, message and information to be advertised.
- This is done jointly by the manufacturer and dealers. They share the media cost and both get benefitted.

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REVIEW QUESTIONS

1. What do you mean by Promotion Mix? Describe all its elements.
2. Describe the different dimensions of advertising.
3. What are the various types of advertising? Describe them with examples.

FURTHER READINGS

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UNIT IV: PUBLIC RELATIONS (PR) AND SALES PROMOTION

★ STRUCTURE ★

LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe the functions of public relations.
- explain the public relations in government.
- know what is component of public relations?
- describe the development of marketing public relations.

4.1 DEFINITIONS OF PUBLIC RELATIONS

"Public Relations is the deliberate, planned and sustained effort to establish and maintain mutual understanding between on organization and its publics."

—Institute of Public Relations, USA

"Public relations is the attempt by information persuasion and adjustment to engineer public support for an activity, cause, movement or institution."

—Edward L. Bernays

"Public Relations is a combination of philosophy, sociology, economics, language, psychology, journalism, communication and other knowledges into a system of human understanding."

—Herbert M. Baus

"Merely human decency which flows from a good heart."

—Charles Plackard

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"Good performance, publicity appreciated because adequately communicated."

—Fortune (Magazine)

"Public Relations is Dale Carnegie - winning friends and influencing people-writ large."

—Robert Heibroner

"Everything involved in achieving a favourable opinion."

—George F. Meredith

Former President of the American Pubic Relation Association

"The Management function which gives the same organized and careful attention to the asset of goodwill as is given to any other major asset of business."

—John W. Hill

"Public Relations is distinctive management function which helps establish and maintain mutual lines of communication, understanding, acceptance and cooperation between an organization and its publics; involves the management of problems or issues; helps management to keep informed on and responsive to public opinion; defines and emphasizes the responsibility of management to serve the public interest; helps management keep abreast of and effectively utilize change, serving as an early warning system to help anticipate trends; and uses research and sound and ethical communication as its principal tools."

—Rex F. Harlow

4.2 ORIGIN OF PUBLIC RELATIONS

Thomas Jefferson (1807) used the phrase "Public relations" in the place of "State of thought" while writing his seventh address to the US Congress. In India, Great Indian Peninsular Railway Company Limited (GIP Railways) carried on publicity in Public Relations campaign in England for promote tourism to India through mass media and pamphlets. During the time of First World War a central publicity board was set up at Bombay (now Mumbai) for disseminating war news to the public and press. After Second World War the Public Relations activity gained importance both privates as well as Government started Public Relations campaigns.

4.3 NEED FOR PUBLIC RELATIONS

Investing on Public relations will help the organisation to achieve its objective effectively and smoothly. Public Relations is not creating good image for a bad team. Since false image cannot be sustained for a long time. Though the

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organization product or services are good it need an effective Public Relations campaign for attracting, motivating the public to the product or service or towards the purpose of the programme. It is not only encourage the involvement from the public and also resulting in better image.

An effective Public Relations can create and build up the image of an individual or an organisation or a nation. At the time of adverse publicity or when the organisation is under crisis an effective Public Relations can remove the "misunderstanding" and can create mutual understanding between the organisation and the public.

4.4 FUNCTIONS OF PUBLIC RELATIONS

- Public Relations is establishing the relationship among the two groups (organisation and public).
- Art or Science of developing reciprocal understanding and goodwill.
- It analyses the public perception & attitude, identifies the organisation policy with public interest and then executes the programmes for communication with the public.

4.5 ELEMENTS OF PUBLIC RELATIONS

- A planned effort or management function.
- The relationship between an organisation and its publics
- Evaluation of public attitudes and opinions.
- An organisation's policies, procedures and actions as they relate to said organisation's publics.
- Steps taken to ensure that said policies, procedures and actions are in the public interest and socially responsible.
- Execution of an action and or communication programme.
- Development of rapport, goodwill, understanding and acceptance as the chief end result sought by public relations activities.

4.6 THE COMPONENTS AND TOOLS OF PUBLIC RELATIONS

"Public" A group of similar individuals; an assortment of persons having the same interests, problems, circumstances, goals; it is from such persons that opinion emanates. Public is a varied creature; it comes in many forms and sizes. Public has a multitude of wants and desires; it has its likes and dislikes, some times, strong likes and strong dislikes. Employers make for a public and employees another public; the government is a public and citizens constitute another public, and so on, each of these groups is a public of the sort, tries to attract a different audience with its own tools and techniques.

"Relations" Human wants to create the need to establish relations with one another. The representative wants of the individuals will profoundly affect their relationship. To understand any relationship, therefore, one must understand the wants of those involved. 'Relationships are of all possible types. We have

relationship by ran-superior to inferior, inferior to superior, and equal to equal. We have relationship by sentiment-benevolent, Friendly, suspicious, jealous, hostile. A relationship may be active, or it may be passive it may be good or it may be bad, or it may be neutral. At any rate, the relationship is there to be accepted, ignored or altered, as desired.

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Propaganda: Propaganda is the manipulation of symbols to transmit accepted attitudes and skills. It describes political application of publicity and advertising, also on a large scale, to the end of selling an idea cause or candidate or all three.
Campaigns: These consist of concerted, single-purpose publicity programme, usually on a more or less elaborate scale, employing coordinated publicity through a variety of media, aimed, at a number of targets, but focussed on specific objectives. A campaign objective may be the election of a candidate, the promotion of political cause or issue, the reaching of a sales goal, or the raising of a quota of funds.
Lobbying: It entails the exertion of influence, smooth and measured pressure on other, exercise of persuasion cum-pressure. In essence, it means a group putting its points of view forward in an attempt to win the other groups support.

4.7 SOME POSSIBILITIES THAT WOULD CALL FOR PUBLIC RELATIONS

Promotional opportunity: To inform the new service/policy which call for Public Relations to make wider publicity.

Competitive: To over come the resistance (pre-set mind condition).
Controversy: To eliminate the contradictory conditions in between the organisation and the public.

Adverse publicity: To inform the truth or correct issues and thereby removing the misunderstanding.**Catastrophe:** Announcement of any unfavourable issues.
Crisis: Whenever threats arises.

4.8 PUBLIC RELATIONS IN GOVERNMENT

Public Relations Role in Government

The Government public relations contributes to:

1. Implementation of public policy.
2. Assisting the news media in coverage of government activities.
3. Reporting the citizenry on agency activities.
4. Increasing the internal cohesion of the agency.
5. Increasing the agency's sensitive to its public's.
6. Mobilisation of support for the agency itself.

Public Relations for Government (Objectives and Organizations)

National objectives: The basic function of the government Public Relations department / agencies is to provide information, education/instruction to the citizens. The effort should also motivate the people directly or indirectly, to discharge these functions in a meaningful and purposeful manner, it is necessary

that the Public Relations Department/wing should be clear about the broad objectives which guide their work. The national objective should be non-political, non-controversial, and on which there should be a national consensus. The objectives should further the interests and the well being of the public as a whole and promote the many sided development of the country. The objectives should be long term ones and need not necessarily change with political vagaries.

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4.9 COMPONENT

- Public Relations Objective
- Communication programme
- Content/message development
- Media Co-ordination
- Impact/Result monitoring.

Public Relations Objective

For developing a sound Public Relations programme, a clear well-defined Public Relations objective needs to be established. These objectives should be very specific and measurable.

Public Relations Strategy

For effective implementation of the Public Relations objective a Public Relations strategy is to be evolved. The process of strategy starts with planning which consist of:

(*a*) Determining Key results area
(*b*) Define roles
(*c*) Selecting and setting objectives
(*d*) Preparing action plans relating to programming, scheduling, budgeting, fixing accountability and establishing rules and procedures.

Rice and Paisley suggest the guidelines for planning a successful campaign.

(*i*) Assessment of the needs, goals and capabilities of target audiences.
(*ii*) Systematic campaign planning and production
(*iii*) Continuous evaluation
(*iv*) Complementary roles of mass media and interpersonal communication
(*v*) Selection of appropriate media for target audiences.

Public Relations Process

The definition of Public Relations as relations with the general public through publicity, those functions of a corporation, organisation, branch of military service, etc., concerned with informing the public of its activities, policies, etc., attempting to create favourable public opinions.

Public Relations is the planned effort to influence opinion through good character and responsible performance, based upon mutually satisfactory two-way communications.

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1. Research-listening: This involves probing the opinions, attitudes and reactions of those concerned with the acts and policies of an organisation, then evaluating the inflow. This task also requires determining facts regarding the organisation: "what's our problem?"
2. Planning-decision making: This involves bringing these attitudes, opinions, ideas and reactions to bear on the policies and programmes of the organisation. It will enable the organisation to chart a course in the interests of all concerned: "Here's what we can do."
3. Communication-action: This involves explaining and dramatizing the chosen course to all those who may be affected and whose support is essential: "Here's what we did and why."
4. Evaluation: This involves evaluating the results of the programme and the effectiveness of techniques used: "How did we do?" The first phase of Public Relations process is identifying and listing out the information or message to the communicator. The second phase of Public Relations is process to ascertain the existing image or awareness level about the issue in the target group or common public. The third phase of Public Relations is developing of communication objectives and priorities. The fourth phase of Public Relations is deals with developing the message and choosing the media to transit. The fifth phase of Public Relations is the implementation of the message and media, coordination or the dissemination of message. The sixth phase of Public Relations is communication process to check whether message reached properly and the expected action or behaviour or knowledge on image factors.

The seventh phase of Public Relations, in case the message did not reach properly identified the reason for the ineffectiveness and rectification of the same and disseminate the revised message. Now, let us briefly see the above component:

1. Listing and prioritising of information is to be disseminated: May wish to inform the public:
   (*a*) The new policy of the Government or organization
   (*b*) The change in the existing policy
   (*c*) The new scheme promoted
   (*d*) The change in the existing scheme Public Relations activity starts with identifying the message to be disseminated and prioritised.
2. Ascertaining the existing knowledge level or understanding the perceptions of the public: The organisation can check a quick survey among the target group of the public to ascertain the knowledge level of the issue for which the organisation is planning to initiate Public Relations process and in case of the image it is essential to know whether the image is positive, neutral or negative in terms of the assessment or in terms of the organisation or both.
3. Communication objectives and prioritise: Based on the knowledge level or image factor, communication objectives is to be established which is possible to evaluate and the top management approval is required. For example, communication objective instead of using the term increasing awareness level about the scheme, it should be specific "By 2005, in the number of families where of the scheme be atleast one lakh" so that we can evaluate the impact.
4. Message and Media: After choosing the objective, the content of the message need to be developed. While developing the message we should keep in mind the media in which we are going to use for disseminating that message. TV/ Visual media may be effective for showing the demonstrating awareness.

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Training media may be effective whether the recipient may wish to keep the gap or further reference.

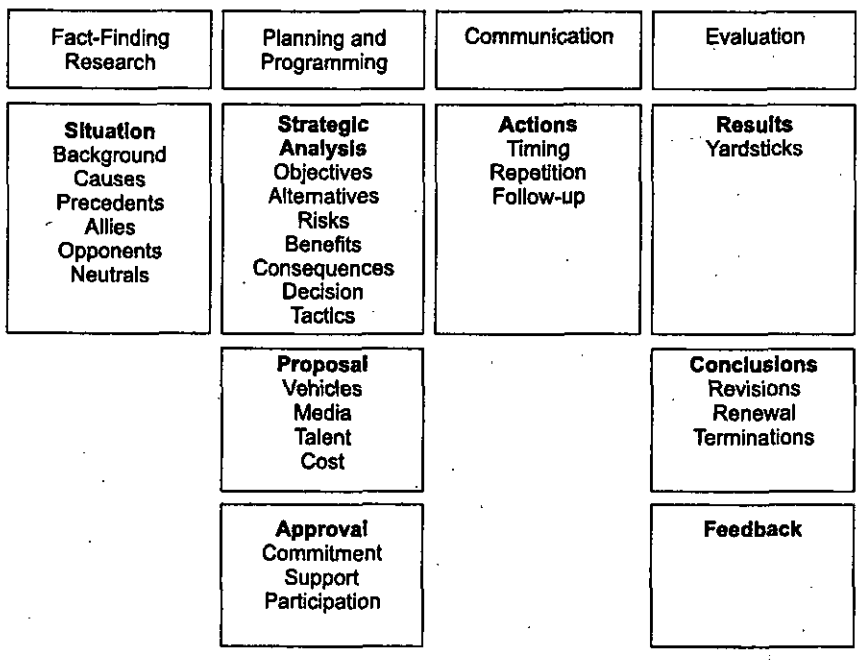
5. Implementation of message and media: Based on the expected reaching level and target group, the budget is to be prepared and message is transmitted through the appropriate media's.
6. Impact assessment: After release of the message, it is essential to study the impact at interval by interacting with the target group.
7. Message redesigned: In case, the interaction of the target group reveals the message did not reach as expected the modification in message or media need to be done and the revised message should be disseminated. The research process:

Opinion, market and academic researchers have developed a pattern of research that involves nine basic steps:

1. Statement of the problem
2. Selection of a manageable portion of the problem
3. Definition of concepts and terms
4. Literature search
5. Development of a hypothesis
6. Determination of a study design
7. Gathering of the data
8. Analysis of the data
9. Recording of the implications, generalisation, conclusions

Research for analysis of a specific problem should include these elements:

1. A broad overview of what has gone before that influences the present situation
2. Changes expected in the environment in the next year or so that could affect the organisation.
3. Social, political and economic trends foreseeable in the next five to ten years that could affect the organisation; and
4. What the organisation can do to influence the public to accelerate favourable trends and slow down unfavourable ones.



There are at least nine questions to be answered.

1. What are the objectives in influencing public opinion?
2. What are the alternative avenues of action for attaining them?
3. What are the risks in taking each avenue?
4. What are the potential benefits in each?
5. What are the potential consequences beyond each?
6. Which avenue do we choose to take?
7. What should be the structure of a proposal to proceed on the course chosen embodying the projects and programmes we want to carry out?
8. In what form do we present our proposal to best advantage for approval? To whom?
9. What is the minimum commitment in support and participation acceptable from administration if the plan is to go forward and succeed?

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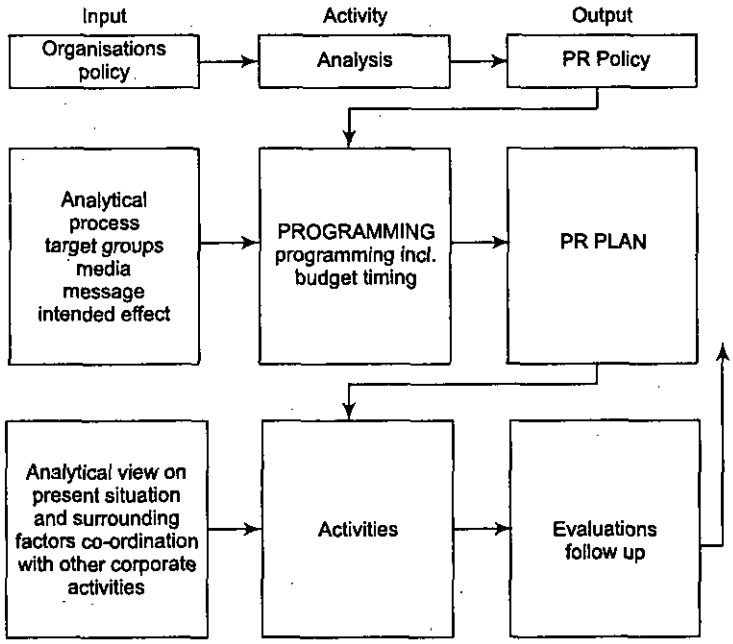

4.10 PR VS MARKETING

Public relations and marketing are often seen as adversarial, although it may just be that they pursue similar goals in different ways. Marketeers tend to see PR as a subordinate part of their armoury of tools, and indeed businesses reinforce this by the organisation of their communications functions. Public relations practitioners often see marketing as part of their remit, for they believe it is primarily concerned with selling products to consumers.

All organisations have a need for public relations, but not all are involved in marketing. The Fire Service carries out community and media relations, but does not try to convince people to start more fires and so use their services more. They may 'market' safety advice and the availability of the service, however.

Belch and Belch (2001: 576) see PR in the same bracket as publicity and promotions, to 'generate buzz'. They also admit that PR is much more about changing attitudes than promoting specific products. What is clear is that public relations and marketing should ideally be corporate allies, working together for common goals.

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Kitchen (1997: 227–234) gives details of a survey carried out among the marketing and PR personnel in seven UK firms to explore the relationship between the functions. Areas of overlap were found. While the growing importance of PR was generally agreed, it appeared that marketing budgets were still substantially higher. PR was viewed as important for marketing support by the marketeers, while PR executives saw this as a minor area and viewed issues management, employee communications and corporate communications as their priorities. However, there was general agreement that PR was part of integrated marketing communications. Cutlip et al. (1985: 495–496) list seven forms of assistance to the marketing function which PR can perform:

1. publicising news and events related to the launching of new or improved products or services;
2. promoting established products or services, to the extent that they are newsworthy;
3. creating a favourable image of 'the company behind the product';
4. arranging for public appearances of marketing spokespersons;
5. probing public opinion in market areas;
6. focusing news media attention on sales conferences and other marketing events;
7. assisting in programmes concerning consumerism.

Kitchen suggests that while there is 'a significant relationship between corporate public relations and marketing public relations', the focus of each is different. He suggests that marketing aims to create exchanges with consumers and uses PR tools to that end. Public relations on the other hand aims to 'create and maintain mutually beneficial relations with publics who could impact on business success' (Kitchen 1997: 234). Moloney(2006a) lists five different relationships between PR and marketing – domination, subordination, separation, equality and identity. He suggests that the adaptability of public relations is an advantage, but that much of the tone of MPR communication is exaggerated. While increased market information results in more informed consumers, the resulting 'wall of sound' has produced a message-dense environment. It is estimated that the average American sees more than seven million advertisements in his or her lifetime.

4.11 CONSUMERISM

The last element of Cutlip's list above refers to the increasing activism of consumers in their expectation that the goods and services they buy should fulfil the promises of related publicity material. Consumerism is 'the idea that consumers should influence the design, quality, service and prices of goods and services provided by commercial enterprises' (Macmillan 1986: 309). However, a survey in the US in 1977 found that consumerism had many meanings, including consuming things and 'an obsessive interest in goods... akin to materialism' (Mayer 1989: 3). Mayer gives a comprehensive history of consumerism as a social movement concerned with 'protecting and enhancing the rights of buyers', and attributes major pieces of legislation to consumer activism, such as the Pure Food and Drugs Act of 1906, in response to Upton Sinclair's novel, The Jungle, which exposed the conditions in Chicago's stockyards (Mayer 1989: 4, 17). One aspect of this can be seen in the rise of consumer watchdog programmes, which publicise where companies have

failed to deliver a good response to complaints. In the early 1990s, Hoover was the subject of a hostile campaign by the BBC consumer affairs programme, Watchdog, with regard to a promotion which offered free flights with the purchase of certain products. The company underestimated the potential demand for their offer, with the result that it had underbooked the number of flights. In order to satisfy everyone who claimed their flights, a profitable promotion turned into a massive loss-maker. Watchdog sent an undercover researcher into one of the travel companies dealing with the claims, who managed to secretly record one of the managers briefing staff on how to discourage claimants from taking up their free flights. The company did not put up a spokesperson until Watchdog had featured the problem several times. The marketing manager in charge of the promotion was sacked, and the company lost a considerable amount of consumer goodwill. Obviously the most influential organisation in this field in the UK is the Consumers' Association. Its magazine, Which?, also available online, carries reports on a vast range of products to enable consumers to pick the best available in their price range.

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4.12 MARKETING COMMUNICATIONS AND INTEGRATED MARKETING COMMUNICATIONS (IMC)

Norman Hart (1995: 25) defines marketing communications as 'across-the-board communications to help move a potential customer from a state of ignorance towards a position of decision and action'. He goes on to describe the adoption process:

1. Awareness. The individual becomes cognisant of the innovation but lacks information about it.
2. Interest. The individual is stimulated to seek information about the innovation.
3. Evaluation. The individual considers whether it would make sense to try the innovation.
4. Trial. The individual tries the innovation on a small scale to improve his or her estimation of its utility.
5. Adoption. The individual decides to make full and regular use of the innovation. 'Marketing communications encompasses any form of communication that contributes to the conversion of a non-customer to a customer, and subsequently to the retention of such custom,' says Hart (1995: 25). Hart suggests that customers do not buy a product but rather satisfaction, so that they buy holes rather than drills. Customers base decisions on the benefits they perceive from the product. Packaging and presentation will affect this perception. Size, weight, colour and smell all appeal, often on an unconscious level. Brand name is also part of the total 'product offering'.

How does PR fit into marketing communications? Don Schultz coined the phrase integrated marketing in 1993, promoting the value of PR alongside other marketing disciplines (Jardine 2006). The traditional elements of the marketing mix are the four Ps – product, price, place and promotion. Price can indicate good or bad value for money; in some cases, a high price signals quality or prestige. Place means the channels of distribution and the kind of outlet where the product can be obtained – a product will be viewed differently if it is sold on a market stall rather than in a high street department store. Promotion refers to the media and

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messages used to influence buyer decisions. It is here that PR contributes most, bringing a range of activities which can support and supplement advertising and marketing. The selection of which medium to use to convey the messages will depend on the target market, and the combination of choices made for the most effective communication is often referred to as the 'media mix' Davis (2004) adds on three more Ps: people (customers), process (involvement of the consumer in production) and physical evidence (making the benefits of products tangible). People may also include employees.

The size of the market is the first consideration when deciding which tactics to use when communicating with various publics. A group of people who are involved in any decision are often called the buying decision unit, or BDU. If only ten BDUs are to be approached, personal contact would be the most appropriate medium. If there are 1,000, direct mail editorial publicity, demonstrations or telephone selling could be used. With 100,000, mass media advertising would be best. Different media have different kinds of impact – a press advert can make an impression only by means of text and photography, but if it is in a magazine it will have a longer life than a TV advert. The TV advert, however, has the advantage of movement, colour and sound. This is further exaggerated when shown in a cinema.

Stone (1995) quotes research from the 1970s which identified six main zones of influence within families when making decisions about buying various products. These were:

- man's influence
- woman's influence
- children's influence
- man and woman
- man and children
- woman and children.

This was followed by research in 1991 which found that children were the main influence on the purchase of video games (61 per cent) and women were dominant in the purchase of dishwashers and food processors (69 per cent and 67 per cent). Only one area was male dominated – satellite television aerials (72 per cent) (Stone 1995). Information on buying decisions can inform the public relations practitioner when devising campaigns and selecting the appropriate tactics to carry messages about particular products to specific publics.

The kind of message is the next consideration. A simple message could be conveyed by a poster, but a complex or technical one would need to be presented in the specialist press. In selecting media, cost must be considered in two ways. First the actual price of using the medium selected and whether this fits the budget available; and second, a cost per contact should be evaluated to see if the medium delivers cost-effectiveness. Personal contact by a salesperson will obviously cost more per contact than using the national press.

Timing also affects what medium is to be used. Television, radio and the press can deliver a message quickly, within 24 hours. Trade and specialist media have longer lead times; trade fairs and exhibitions are infrequent. Which medium is to be used will depend on when the message needs to be delivered. Davis (2004) suggests that PR is a more costeffective alternative to spending on advertising. Advertising alone is not persuasive enough. Moloney (2006a) agrees that PR and marketing together are better able to handle promotions across a variety of channels such as

media relations, events, sponsorship, exhibitions, roadshows and web-based materials.

4.13 THE DEVELOPMENT OF MARKETING PUBLIC RELATIONS

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Kitchen and Papasolomou prefer to use the term MPR to talk about the area where marketing and public relations merge. They refer to Kotler's description of MPR as 'a healthy offspring' of the two disciplines. They also cite Duncan's findings that MPR was thought to be particularly effective in some areas which may have originally been served by advertising, and also in brand building. They recommend Shrimp's definition of MPR as public relations which 'involves an organisation's interactions with consumers... regarding marketing matters'. In addition, objectives for this area of public relations are related to Harris' suggestions of introducing new products, cultivating new markets, influencing opinion-leaders and positioning companies as leaders and experts in order to extend the reach of advertising and gain exposure for products that cannot be advertised to consumers (quoted in Kitchen 1997: 258–267). Davis (2004) quotes Kotler's 1991 definition of MPR as 'a variety of programmes designed to improve, maintain or protect a company or product image'.

Kitchen and Papasolomou also use Kotler's thoughts on the different tasks which could be undertaken by marketing, MPR and public relations. The first deals with market and customer assessment and segmentation as well as product advertising. MPR is concerned with corporate advertising, media strategy and surveys into employee attitudes and customer satisfaction. Public relations then takes responsibility for news, community relations, lobbying and social investments (Kitchen 1997: 255).

Willis (2006) suggests that 'many marketing professionals now view PR as an effective way to win over hearts and minds of consumers', and so stimulate sales of products and services. PR techniques are seen as particularly useful in changing attitudes and behaviours of consumers. Media relations can produce third-party endorsement by journalists which is more credible than advertising. Davis (2004) adds that PR can contribute to four marketing objectives: awareness, credibility, stimulation of the sales force and holding down promotional costs. Kitchen concluded that 'in the real world, (PR and marketing) need one another', and that MPR helped build relationships between consumers and brands (Jardine, 2006).

4.14 BRANDING

Consumer PR and marketing communications are most often concerned with brands – the value of a name of a product or company – and how this affects people's buying behaviour. In some cases, the company name is the brand, such as Virgin, Sony or Kodak. Association with a corporate brand like this may affect consumer decisions. In others, the brand names are well known, such as Fairy Liquid, but the parent company less so, such as Unilever or Procter & Gamble. In some cases, such as soap powder, companies produce different brands which then complement each other in the marketplace by reaching different segments. Brands tend to appeal to emotional drivers in order to differentiate products.

'Nobody in the world ever bought anything on price alone,' states L.D. Young (2006). Brands enable corporations to add price premiums, such as Heinz baked

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beans, which retail for 44p against a supermarket's own label at 15p. Young quotes a blind test of Heinz ketchup against an own-label brand, where 71 per cent of consumers preferred the own label. However, when they saw the label, 68 per cent preferred the Heinz ketchup. There were nearly 26,000 new products launched in 1999 in the US, compared to only 12,000 in 1986 (Schneider 2001: 1). With the market saturated with new brands which can hardly be distinguished from each other, brand loyalty has declined. Consumers are tending to buy whatever is on offer, so that sales promotions and coupons have become more important in buying decisions (Belch and Belch 2001: 528).

Two different approaches can be taken to branding. HSBC Holdings chose to rebrand its Midland Bank operation in the UK. Richard Beck, Head of Group External Relations, stated: 'By unifying the group, we will have better global recognition.' In contrast, when Axa Equity and Law merged with Sun Life in July 1997, it chose not to rebrand Sun Life financial products, as the name was better known in the UK than the parent company (France 1999).

Naomi Klein feels that 'the role of branding has been changing, particularly in the last 15 years... the brand itself has increasingly become the product'. Thus 'Nike was about "sport" not shoes; Microsoft about "communications", not software' (Klein 2000). Companies are now projecting their brand onto many different products. Klein links this increase in branding activity with the tendency of multinationals to shift actual production away from where the goods are bought, and points to the dangers of corporate employment practices in developing countries. She quotes the protests in Paris and Seattle, where rioters attacked McDonald's and Starbucks, as evidence of a backlash against global brands, where brands were seen as the embodiment of exploitation.

David Bright, Barclays' Head of Market Research, also concludes that branding means everything that surrounds a company's offerings, 'from external communication to staff behaviour and physical surroundings'. He believes that both rational and emotional elements underpin the most enduring brands (Echo Research 1998).

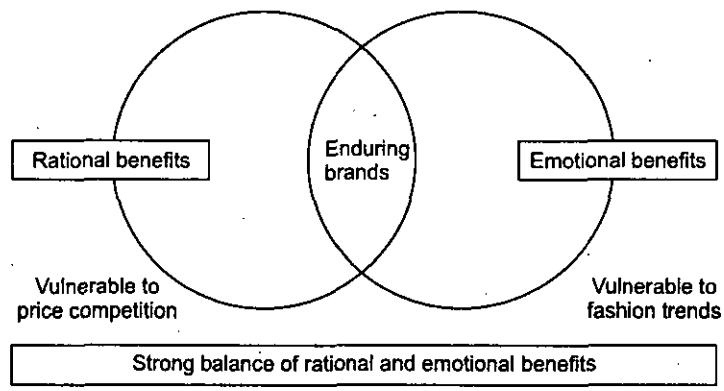

Fig. 4.1 Enduring brands

Al and Laura Ries, having written the seminal work The 22 Immutable Laws of Branding, turned their attention to public relations in 2002 with the controversially titled The Fall of Advertising and the Rise of PR. They state: 'You can't launch a new brand with advertising because [it] has no credibility. You can launch new brands only with... public relations.' They also redefine advertising's role as brand maintenance, and public relations' as brand building. While their definition of public relations often seems to be simply about media relations, they insist that advertising spend is only effective if public relations has prepared the

way and that 'this is the key to success in today's marketing arena' (Ries and Ries 2001: xi, 266).

Using an existing brand name to promote a new product is referred to as a brand extension, transferring brand values onto new products. Thus Richard Branson has diversified into air travel, insurance, train travel, weddings and skin care using the same Virgin name and brand as his original record stores. Keller and Aaker's 2003 research with 250 US undergraduates indicated that using an existing brand in this way directly benefited the acceptance of new products by consumers. They used a variety of emphases, including the corporation's stance on product innovation, environmental credentials or community action. They measured the effect these messages had on credibility, corporate fit, beliefs about product attributes, perceived quality and how that related to purchase likelihood. Whilst environmental concerns and community involvement improved trust in an organisation, innovation had most effect on purchasing behaviour.

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SUMMARY

- An effective Public Relations can create and build up the image of an individual or an organisation or a nation.
- Propaganda is the manipulation of symbols to transmit accepted attitudes and skills
- To eliminate the contradictory conditions in between the organisation and the public.
- The definition of Public Relations as relations with the general public through publicity, those functions of a corporation, organisation, branch of military service, etc.,
- Public relations and marketing are often seen as adversarial, although it may just be that they pursue similar goals in different ways.

  Kitchen and Papasolomou prefer to use the term MPR to talk about the area where marketing and public relations merge.

REVIEW QUESTIONS

1. Discuss the significance of public relation
2. Discuss the need for public relations.
3. Discuss the functions of public relations.
4. Discuss the elements of public relations.

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