

Heading for change: marketing and sales trends in France

Jean-Michel Peny and Anthony Walker look at the effects of recent government healthcare changes on the marketing and sales performance of leading French pharma companies and the re-engineering approaches needed to counter them.

In order to protect or even improve their profit margins long-term, pharmaceutical companies will need to optimise marketing and sales activities, where room for improvement is widest.

The industry is still very profitable. Its net profit margin of 10% is five times higher than the average of the other industrial sectors. However, increasing pressures applied to drug prices by governments and/or customers and the recent proliferation of mergers and acquisitions in the pharmaceutical industry (more than US\$40 billion transactions in 1994 compared with US\$24 billion in 1993 and US\$7 billion in 1992) will impact the future of those companies that have not yet been able to build defensible competitive positions.

In this changing environment, a priority for any management team should be to optimise its company's productivity. Considering that marketing and sales activities account for 25-30% of most companies' total costs and that productivity enhancement measures taken to date have been limited (except in Germany and the US), the opportunities presented by performance improvement are substantial. An analysis of the pharmaceutical industry's cost structure shows that a 10% improvement in marketing and sales productivity leads typically to a 12% increase in a company's profit margin. The same productivity improvement obtained at the R&D or manufacturing level will lead to an improvement in profit of only half that level.

These are the findings of a recent study of marketing and sales trends among French pharmaceutical companies. The study looked at changes in the pharmaceutical environment, their impact on the marketing and sales performance, and organisation of leading pharmaceutical companies, and the business process re-engineering approaches that could be taken to counter them.

Changing environment

Two changes, in particular, are likely to have a significant effect on drug consumption in France – the government introduced 'Good Medical Practice' guidelines for the prescribers, and agreed product sales limits for the pharmaceutical companies. Both changes are a reaction to escalating healthcare costs.

Between 1990 and 1994 healthcare expenditure in France grew on average by 5.5% per annum, whereas growth in gross domestic product (GDP) reached 3.2% per annum. As a result of this imbalance, the percentage of GDP devoted to healthcare reached 8.9% in 1994 (compared with 8.1% in 1990), which represents the third highest ratio worldwide, after the US and Canada. This increasing burden of healthcare expenditures as a percentage of GDP has led to the deficit now faced by the health insurance benefit branch of the French Social Security. The deficit reached US\$5.7 billion

in 1994 and the estimate for 1995 is US\$6.4 billion (figures are based on the 1994 daily average exchange rate of US\$1 = FF 5.545).

The French government's efforts to reduce the burden of healthcare costs have mainly focused on drug consumption. This represented 18% of the US\$118 billion healthcare expenditure in 1994 (13% of National Health Insurance reimbursements). Based on the observation that the average quantity of drugs consumed by French patients is much higher than in other European countries – four times more than British patients, for example – a new strategy was set by the French government in 1992. This new approach, called 'medicalised regulation', aims to reduce the volume of medical care and goods consumed by urging doctors to write only 'medically justified' prescriptions.

As part of the new approach, the government introduced 147 Good Medical Practice guidelines in March 1994 and January 1995, of which 36 are related to

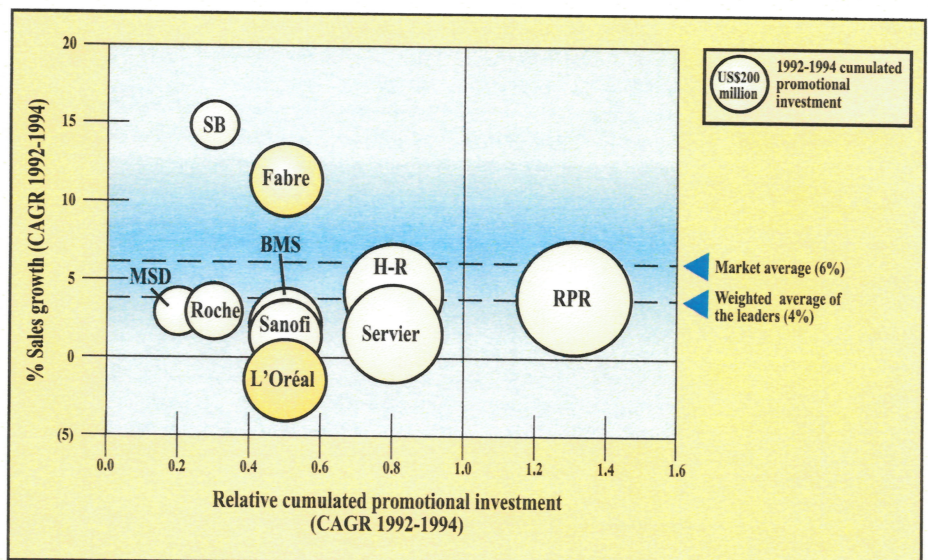


Figure 1: Impact of promotional investment on sales growth between 1992 and 1994. Source: Pharmagers, CAM.

drug prescribing, covering for example, antibiotics, antihypertensives, antidiabetics, NSAIDs, etc. These guidelines have played an important role in the slowdown of French pharmaceutical market growth, which stood at 1.3% in 1994 compared with 11% in 1993. Another major measure introduced last year was the signing of a contract between the French Pricing Committee and pharmaceutical companies. These contracts are based on agreed product sales volumes which, if exceeded, will lead to price cuts. The objective of this measure is to limit annual market growth to around 3% until 1997. The progressive emergence of new influencers (ie patients and medical advisers to National Health Insurance Funds) is also likely to have a significant impact on drug consumption patterns and therefore on the performance of pharmaceutical companies.

So what impact has this had on the leading pharmaceutical companies in France?

Marketing and sales

A detailed analysis of the top ten pharmaceutical companies in the French retail market (referred to here as leaders) shows widely contrasting performances and very different strategic choices between the firms considered.

During 1992-1994, the compound annual growth rate (CAGR) of the leaders was 4% – half that of the other pharmaceutical companies. This lower performance may result from the introduction of the Good Medical Practice guidelines that mainly affected the therapeutic fields from which leaders draw most of their revenues. Rhône-Poulenc Rorer, which is number one in the French retail market with a 10% market share, achieved 50% of its sales in the cardiovascular and anti-infectives market segments. Servier takes 60% of its revenues from cardiovascular drugs.

Among the leaders, only SmithKline Beecham and Fabre grew faster than the market average of 6%, showing growth between 1992 and 1994 of 15% and 11% respectively. SmithKline Beecham's growth was fuelled by the exceptional success of its anti-hepatitis B vaccine (Engerix B) whose sales have multiplied nine times since 1992. Fabre's growth was due mainly to the introduction of new products in the two years between 1992 and 1994.

As can be seen in Figure 1, sales growth does not seem to correlate with the nominal amount invested in promotion. For the same level of promotional investment, Fabre's sales increased by 11% whereas L'Oréal's (Synthelabo) sales decreased by 1.4%. Addi-

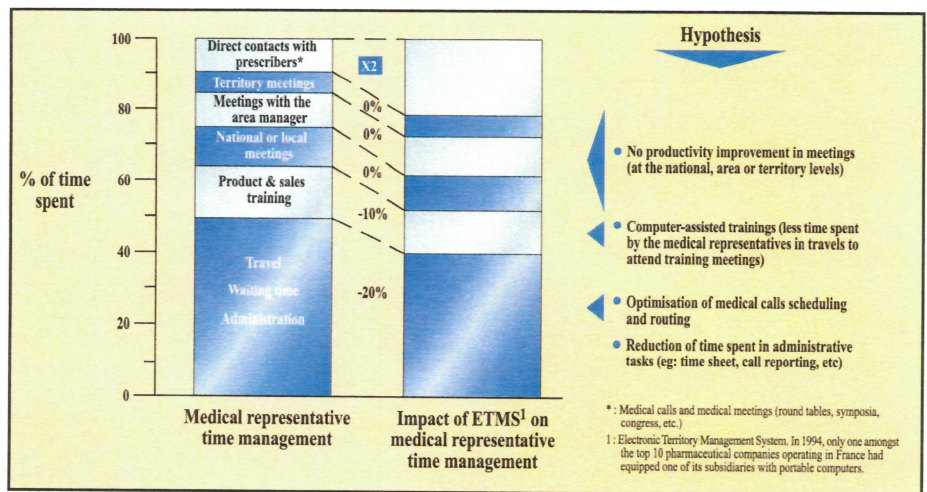


Figure 2: Productivity improvement of medical representatives. Source: ESCP.

tional analysis shows that between 1992 and 1994, Fabre achieved the same cumulative sales as SmithKline Beecham, but with promotional investment twice as high.

Promotional efforts expressed as promotion to sales ratio are much higher in privately owned companies (eg 19% for Fabre and 18% for Servier) than in the public French-based companies (eg 12% for Rhône-Poulenc Rorer and 11% for Sanofi). The lowest ratios are obtained by subsidiaries of 'Anglo-Saxon' companies: SmithKline Beecham, for example, invested only 10% in promotion and Merck Sharp & Dohme just 8%. Taking into consideration the limit on annual sales growth set for those pharmaceutical companies that have signed an agreement with the Pricing Committee, it would appear to be in the interest of the industry to contain, or even to reduce, its promotional costs in order to remain within this limit and avoid any imposed price cut on reimbursed drugs.

The overall promotional investments of the leaders decreased by 1% between 1992 and 1994, but their sales force expenses increased by 2%. During this period the leaders reduced their investment in press advertising by 13% and in clinical studies by 12%. Nevertheless, they increased promotional activities targeted at retail pharmacists by 23%. Recent speculations about a possible right of substitution to be granted to pharmacists with, as a corollary, the expansion of

the generic market, are responsible for this 'sudden' interest by the pharmaceutical industry in retail pharmacists. With 70% of their promotional efforts devoted to sales forces, leaders invest relatively less in promotion than other pharmaceutical companies (75%).

Analysis of the productivity of medical representatives shows important differences among leaders. Bristol-Myers Squibb's average sales per medical representative in value terms are 50% higher than that of Fabre and 30% that of Roche and L'Oréal. The revenues per medical representative of these two companies are the same, but Roche's

average sales per doctor call are 40% higher than that of L'Oréal. To identify the root causes that lead to this difference in productivity, a detailed qualitative study of their respective call activity would be necessary.

By reorganising the day-to-day activities of the reps it is

possible to increase the time available to meet decision makers/influencers quite significantly. An average reduction of 10% in the time spent on support activities such as travel, waiting time, administration, product and sales training and internal meetings would theoretically double the effective time a rep could spend with prescribers or other decision makers/influencers (Figure 2). The use of Electronic Territory Management Systems (ETMS) may also be of help in optimising medical representatives' time.

Analysis of companies' profitability shows that the average performance of the leaders

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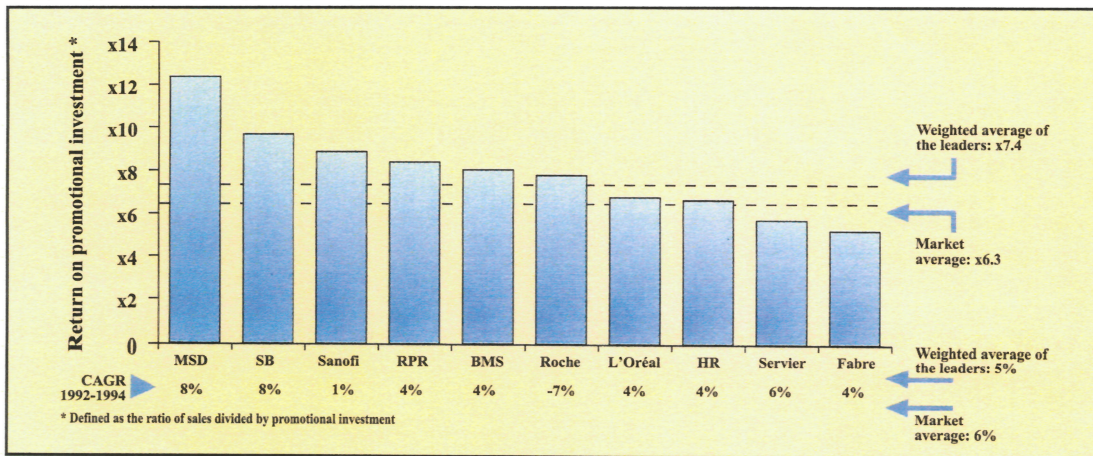


Figure 3: Return on promotional investment for the ten leading pharmaceutical companies on the French retail market. Source: Pharmagers, CAM.

was higher than that of the other pharmaceutical companies in 1994, but that their growth was slower between 1992 and 1994. The leaders' return on promotional investments in 1994 varied substantially from one company to another. Merck Sharp & Dohme's promotional productivity was more than twice as high as Servier's and Fabre's (Figure 3). The leaders' cumulative contribution (sales minus promotional investment) during the period 1992-1994 shows that Rhône-Poulenc Rorer achieved the best absolute value with US\$3.17 billion and Merck Sharp & Dohme the best relative value with 91% of sales. Although all the leaders, with the exception of L'Oréal, improved their contribution in 1993, only SmithKline Beecham, Fabre and Servier obtained better results in 1994 than in the previous year.

Facing an overall decline in their performance, mainly as a result of recent measures introduced by the government, most of the leaders are starting cautiously to reorganise their marketing and sales operations.

Departmental organisation

Over the past two years, leaders have tended to reduce the number of their operational subsidiaries. Servier reduced its subsidiaries at the beginning of the year from five to three. Following the acquisition of Marion Merrell Dow, Hoechst Roussel is reducing the number of its operational subsidiaries from six to three. The main objective of these reorganisations is to achieve economies of scale and streamline marketing, sales and medical activities.

The most striking aspect of the organisation of marketing departments is the elimination of group product managers' positions in several companies. The aim is to shorten the decision-making procedure by removing hierarchical levels. The average number of medical representatives per sales team is 123, with variations from 107 to

150 depending on the company. If the trend is towards a reduction in sales team size, then it has been fairly limited so far in terms of magnitude and number of companies. To date, none of the big players has taken the strategic decision to reduce significantly the size of its sales team. Leaders have, on average, 12 area managers per sales team, with a variation from 9 to 19, depending on the company. These important differences are also found at the managing units level. Certain area managers are responsible for no more than 8 reps whereas others manage up to 15 (weighted average 10).

The survey noted three models of sales management at the area level (see Figure 4):

- The vertical management model. In this model, for a given area, there are as many area managers as sales teams in the subsidiary. Each sales team typically promotes three to four products.
- The horizontal management model. Here, each area is managed by a single area manager, responsible for the promotion of all the subsidiary's products (typically nine to

ten products). Geographic areas are on average three times smaller than in the previous model.

•The hybrid management model. There are typically two area managers in this model, each of them having responsibility for two sales teams, promoting four to six products each.

The main advantages of the horizontal organisation lie in the easier and more efficient coordination of promotional activities; the presence of a single manager representing the company at the area level; and the smaller size of the geographic areas covered, which facilitates improvements in the management of both the reps and the customer base.

Area managers are each responsible for a higher number of products which prevents them from being product experts as they often are in the vertical management model. However, in the new pharmaceutical environment, area managers' profit and loss (P&L) management capabilities would create more value for the company than product expertise.

Organisational changes

To protect or even increase their profits in this changing environment, pharmaceutical companies have no choice but to optimise productivity of their operational subsidiaries. Both organisational streamlining and process re-engineering represent key strategic levers (Figure 5).

To achieve optimal streamlining in an organisation five key changes are necessary:

- Decrease the number of operational sub-

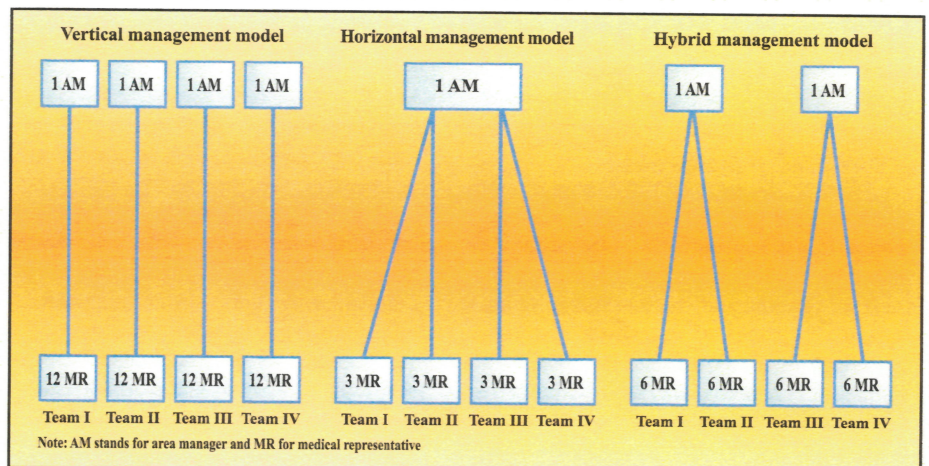


Figure 4: Illustration of three alternative models of area management. Source: ESCP.

subsidiaries in order to reduce structural costs and achieve economies of scale.

- Create expertise centres specific to each operational subsidiary (internal products reallocation may be required) to increase experience and customer base sharing, and reinforce product and disease expertise.

- Limit the activities of operational subsidiaries to those that contribute directly to generation of revenues (medical, marketing and sales). Such a reorganisation should facilitate the development of synergies, achieved through improved coordination and collaboration. Expected benefits include improved productivity within operational subsidiaries as well as an increase in internal and external clients' satisfaction.

- Introduce a horizontal management organisation to develop a unique, coordinated and consistent promotional approach at the level of each area.

- Create 'Territory Coordination Teams' that offer the benefit of improved coordination and efficiency of the promotional activities implemented by the medical representatives working in the same territory. The formal and systematised coordination of promotional activities through these 'Territory Coordination Teams' should lead to a significant improvement in overall efficiency and productivity of operational subsidiaries. For example, a medical representative with good contacts with a given general practitioner (GP) may help his colleagues by keeping them regularly informed about, for example, doctors' expectations, prescription habits, opinion regarding the company's products or promotional activities, etc. Such collaborative behaviour may be fostered by the introduction, over and above individual sales incentives, of 'Group Territory Team' incentives based on territory sales and/or productivity performance.

Process re-engineering

The second strategic lever, process re-engineering, consists of optimising the productivity of operational subsidiaries by redefining key roles and redesigning key processes in order to reduce costs and increase customer satisfaction.

Thus, in the light of the changing environment, the tasks of marketing managers could more appropriately be focused on strategic issues, such as the transformation of pharmaceutical marketing from a product oriented to a customer oriented approach. The appropriate mission of the product managers could then be redefined to conceive promotional tools that are adapted to the specific needs of different sales areas. To achieve this, each action plan could be designed by product man-

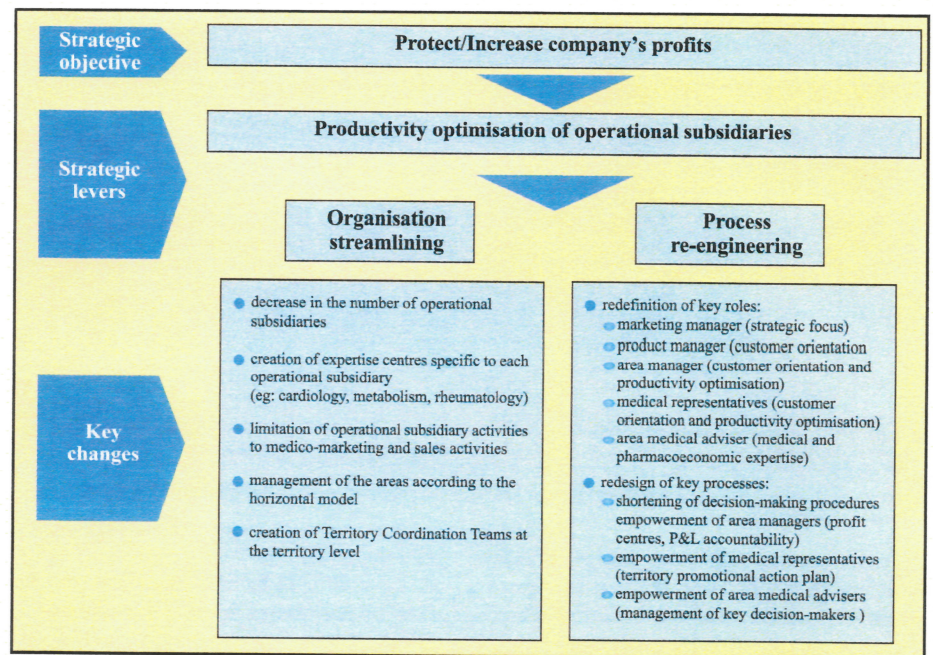


Figure 5: Productivity optimisation of operational subsidiaries. Source: ESCP.

agers working in close collaboration with area managers in a bottom-up approach. The mission of area managers and medical representatives would then become more focused on return on promotional investment than on sales. The management of sales areas as profit centres with P&L accountability could be a frame that is particularly relevant for the stimulation of the change from a sales culture to a profitability culture. Finally, the presence of medical advisers with medico-scientific and pharmacoeconomic expertise appears to be more and more justified at the area or multi-area levels. They could balance the promotional activities of the sales teams as well as providing clients/influencers with medical and pharmacoeconomic services.


The optimisation of the key processes will consist mainly of simplifying the decision-making procedures through a reduction in the number of hierarchical levels, to empower those who are close to the customers, that is the area managers (eg profit centre responsibility, P&L accountability), the medical representatives (eg promotional action plan design and implementation at the territory level) and medical advisers (eg key clients management).

Considering the substantial nature of implied changes in companies' structures and processes as well as in the tasks and behaviour of staff, the implementation of these organisational recommendations is likely to be difficult and costly. However these short-term hurdles should not prevent pharmaceutical companies from introduc-

ing the necessary adjustments that will secure their long-term performance and competitiveness.

Unlike in Germany, Italy and the US, recent changes in the pharmaceutical environment in France have not yet created major upheavals resulting in major change to the rules of competition. If none of the leading pharmaceutical companies has yet re-engineered its marketing and sales activities, it is most probably because, to date, no change has occurred that is drastic enough in itself to justify rethinking and redesign of these companies' key processes.

Nonetheless a certain number of transformations are progressively and cumulatively emerging in the French regulatory and competitive environment. Players that wish to maintain their competitiveness will need to be vigilant and adapt their business to permit timely and profitable responses as the rules change.

The study was undertaken by The Wilkerson Group, in association with the students of the Paris business school ESCP. It was based on data provided by the service companies IMS, GERS and CAM, as well as face to face interviews with 30 senior executives from leading pharmaceutical companies in France. 

• Jean-Michel Peny, lecturer at the Paris business school ESCP and formerly with The Wilkerson Group, is now Associate Principal of AT Kearney, Paris. Anthony Walker is Principal of The Wilkerson Group, London.