



# 2020 Pharma Trends & Marketing Challenges

*Recommendations for Pharma Companies*

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## Introduction

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This position paper has selected 12 market trends and 7 marketing challenges likely to impact pharma companies by the end of 2020, leading to 5 recommendations

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### Objective of the presentation

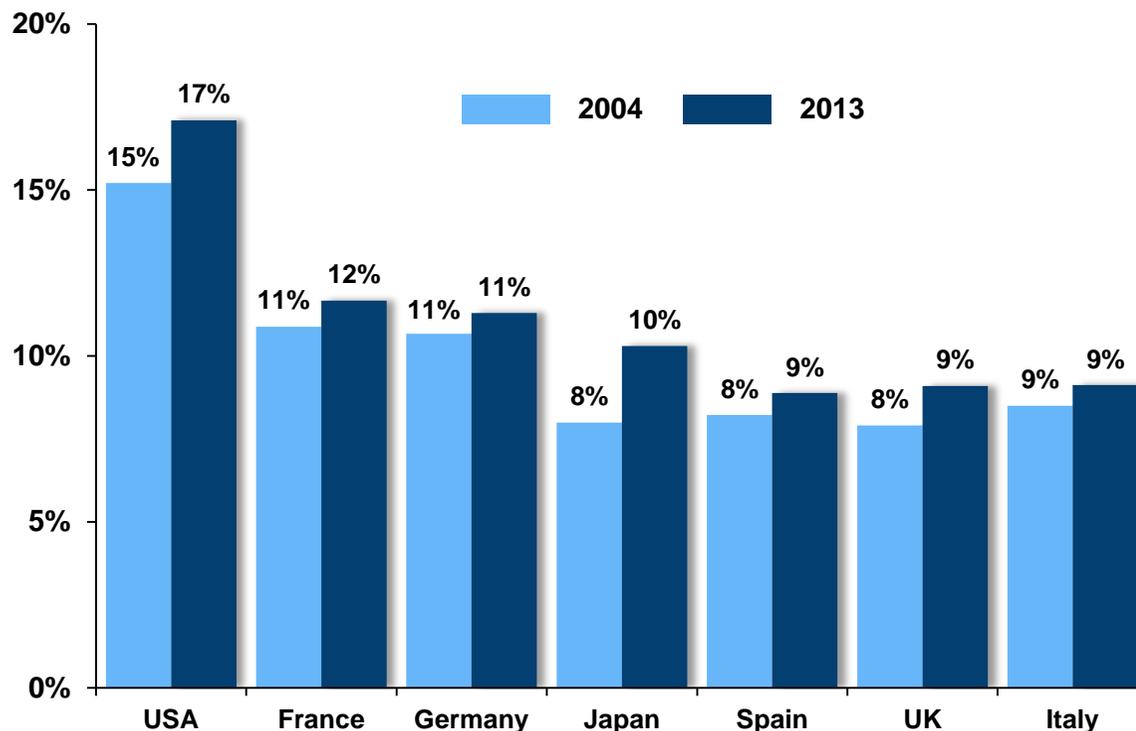
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- The objective of this position paper is to **highlight**:
    - The key pharma **market trends**
    - The key **marketing challenges**
- over **the 2015 – 2020 period** based on an in-depth analysis of the environment and of its players, at both global and national levels
- From the 12 key pharma market trends and the 7 marketing challenges selected by Smart Pharma Consulting...
  - ... **5 recommendations**, specific to **R&D-based pharma companies**, have been proposed

**Trend #1:** Health expenditure will keep on growing faster than national economies, irrespective of the measures introduced by health authorities to slow it down

**Healthcare expenditure as a percentage of GDP<sup>1</sup>**

Total healthcare expenditure as a % of GDP<sup>1</sup>



Life expectancy at birth (yrs.)

USA	79.8	France	82.3	Germany	81.0	Japan	84.6	Spain	82.3	UK	81.0	Italy	83.1
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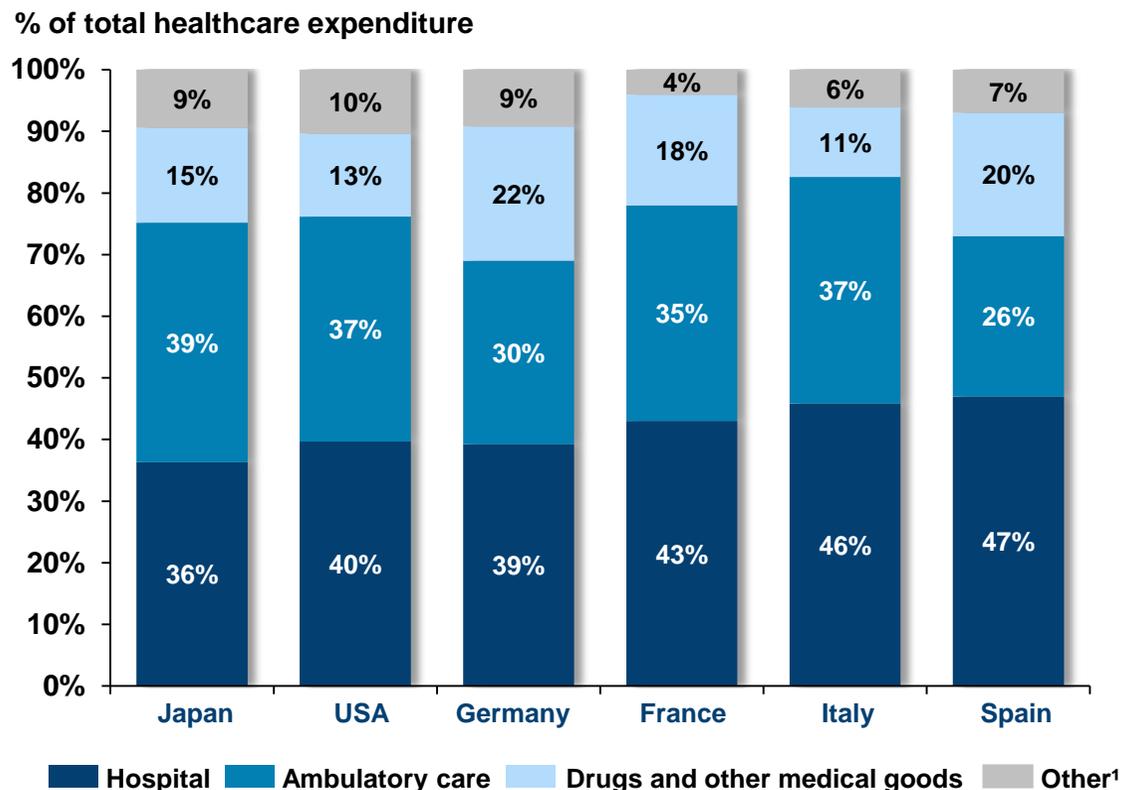
- In 2013, healthcare expenditure represented one of the largest public spending items in most developed economies: 1<sup>st</sup> (USA), 2<sup>nd</sup> (France, Germany, Japan, UK)<sup>2</sup> and 3<sup>rd</sup> (Italy<sup>3</sup> and Spain<sup>4</sup>)
- At best, health authorities will manage to slow down the rise of healthcare expenditure as a percentage of GDP, but not to stop it
- In principle, there is no ideal or optimal ratio of healthcare expenditure over GDP
- The weight of healthcare expenditure is primarily a political decision based on public health considerations and national investment prioritization

Sources: World Bank's Open Data (2013) – OECD Government expenditure by function (2013) – WHO 2015 data for life expectancy at birth – Smart Pharma Consulting analyses

<sup>1</sup> Gross Domestic Product in local currency – <sup>2</sup> After social protection – <sup>3</sup> After social protection and general public services – <sup>4</sup> After social protection and economic affairs

**Trend #2:** Governments will keep on applying drastic cost-containment measures on drugs because they are technically easy to implement and politically risk-free

## Breakdown of healthcare expenditure per country (2013)



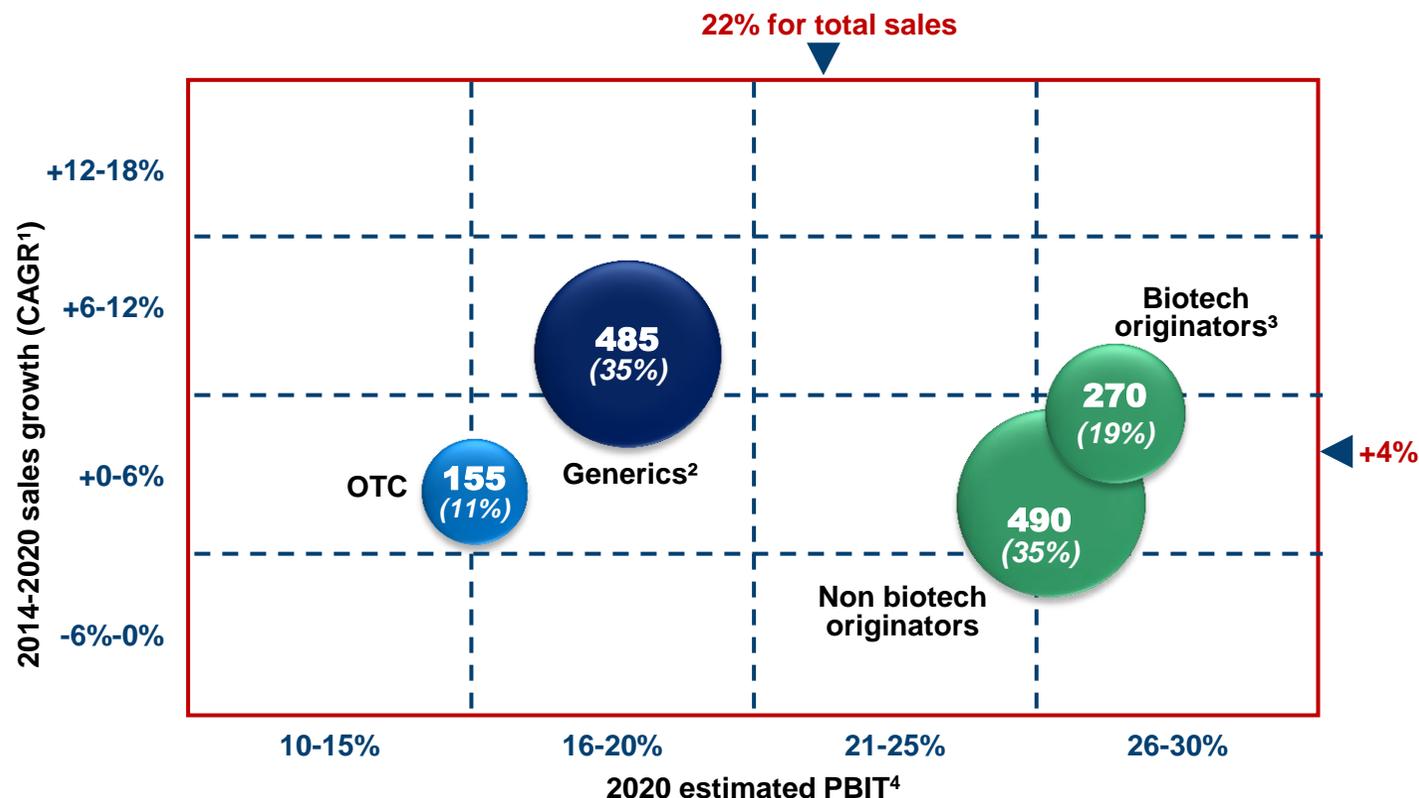
- Drugs represent the 3<sup>rd</sup> largest source of healthcare expenditure in major developed countries
- Drugs are typically the easiest segment to apply cost-containment measures on, as decisions are:
  - Made by payers (either public and/or private), with little or no negotiation with suppliers
  - Much better accepted by citizens than restriction measures on the other segments
- However, to significantly reduce total healthcare costs, governments will need to apply cost-optimization measures on all healthcare segments, irrespective of their relative importance

Sources: OECD Health Database as of May 2015 (Data France, Germany, Japan and Italy: 2013, Spain: 2011) – Centers for Medicare Services, Office of the Actuary, National Health Statistics Group for the U.S. (2013 data) – Smart Pharma Consulting analyses

<sup>1</sup> Other expenditures mainly include nursing and residential care facilities, provision and administration of public health programs and general health administration

**Trend #3:** By 2020, the R&D-based biotech segment will exhibit the highest profitability (~28%) and an average annual growth rate of 6% vs. 4% for the global pharma market

### Global pharmaceutical market attractiveness per strategic segment (2014 – 2020)



- In 2020, pharma market sales (excluding medical device) should reach USD 1,400 B worldwide with a +4% CAGR between 2014 and 2020
- In 2020, the average profitability rate should stand at 22% of pharma companies sales vs. 25% in 2014
- The OTC segment appears to be the smallest, the least profitable and with the lowest growth rate
- The biotech segment will remain very attractive

● 2020 sales in USD B

Sources : Nicholas Hall's OTC Yearbook 2013 – IMS Health 2014 – Smart Pharma Consulting analyses

<sup>1</sup> Compound annual growth rate – <sup>2</sup> Including branded and unbranded generics and biosimilars, excluding OTC – <sup>3</sup> Excluding biosimilars, already included in the "Generics" segment – <sup>4</sup> Profits before interests and taxes

**Trend #4:** The global pharma market will be mainly driven by demographic factors and a strong willingness of citizens to have access to breakthrough innovation

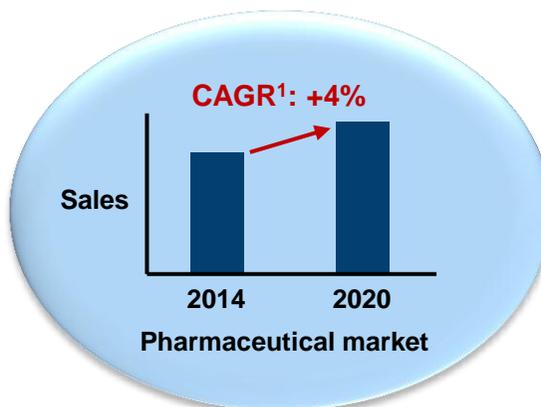
## Global pharmaceutical market drivers and limiters (2014 – 2020)



### Key forces



- 1** Population increase and ageing
- 2** Strong development of generics market (though at the expense of R&D-based brands sales)
- 3** Stronger demand for new and better medicines, including vaccines
- 4** Increasing demand for secondary-care products, including biologicals
- 5** Increasing access to medicines by emerging markets (e.g. BRIC<sup>2</sup> countries, Mexico, Turkey, etc.)



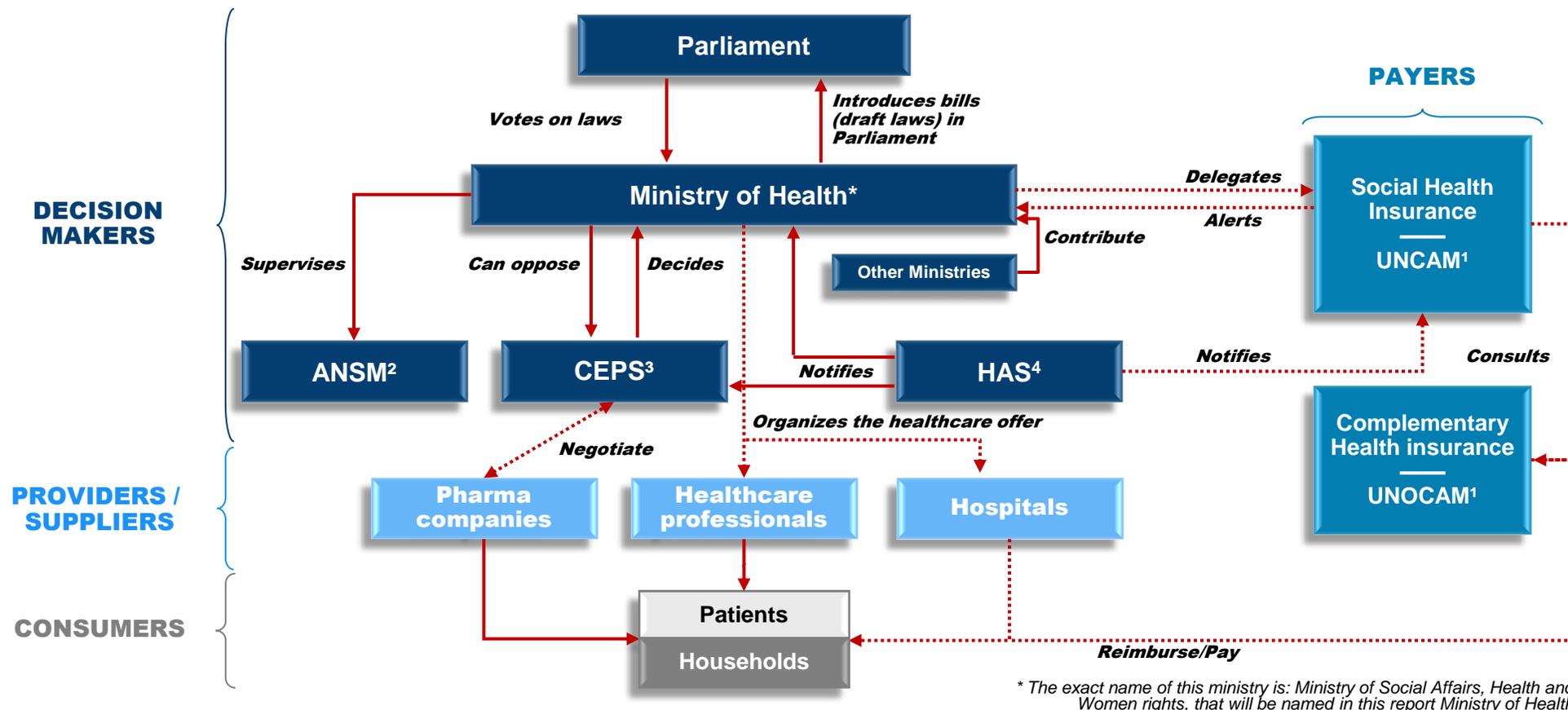
- 1** Stagnation of R&D productivity of pharma companies and increasing barriers to market access
- 2** Intensification of competition from generics and biosimilars
- 3** Increasing price pressure from payers (governments, HMOs<sup>3</sup>, patients, etc.), exacerbated in Europe by the slow economic growth
- 4** Increasing price sensitivity of customers for OTC products
- 5** Increasing power of authorities, payers, patients and patient advocacy groups, in the choice of the treatment, including the choice of the drug

Sources: Smart Pharma Consulting analyses

<sup>1</sup> Compound annual growth rate – <sup>2</sup> Brazil, Russia, India, China – <sup>3</sup> Health Maintenance Organizations

Stakeholders in the French healthcare system can be split according to their role as decision maker, payer, provider / supplier or consumer

Relationships between main stakeholders

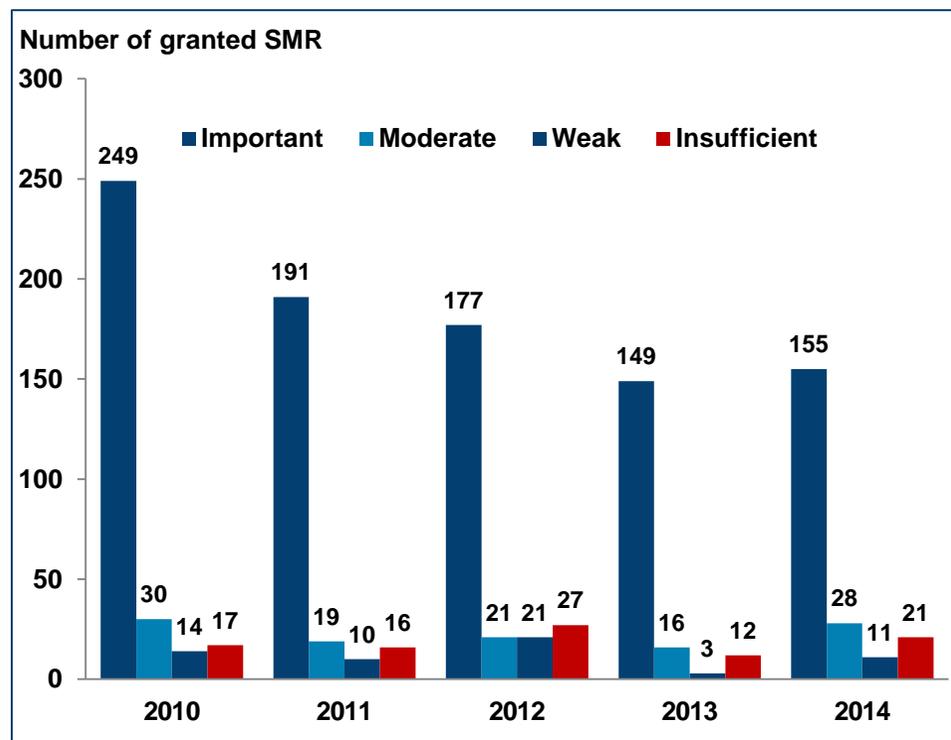


Sources: Smart Pharma Consulting analyses <sup>1</sup> UNCAM : Union Nationale des Caisses d'Assurance Maladie / UNOCAM : Union Nationale des Organismes d'Assurance Maladie Complémentaires → National Union of Social Health Insurance Funds / of Complementary Health insurance – <sup>2</sup> Agence Nationale de Sécurité du Médicament et des produits de santé → Health Agency – <sup>3</sup> Comité Economique des Produits de Santé → Economic Committee on Healthcare Products – <sup>4</sup> Haute Autorité de Santé → National Authority for Health

**Trend #5:** French health authorities will keep on limiting ASMR I, II and III to quantum leap innovations in order to contain the cost of reimbursed drugs

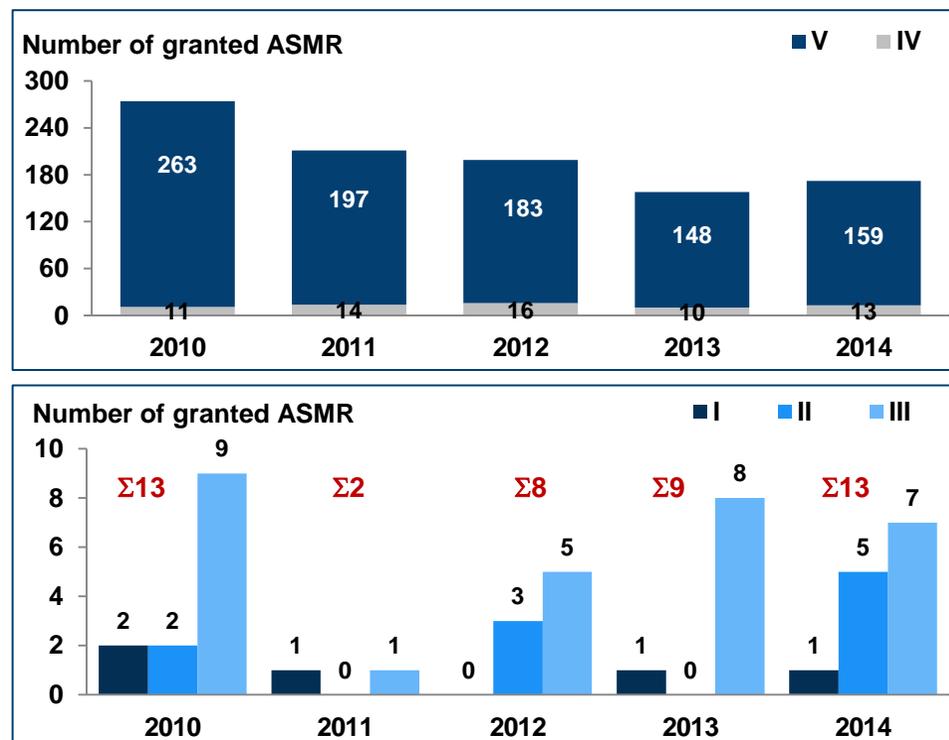
**SMR and ASMR granting over time (2010-2014)**

**Distribution of granted SMR levels<sup>1</sup>**



SMR (Service médical rendu): Medical benefit

**Distribution of granted ASMR levels<sup>1</sup>**



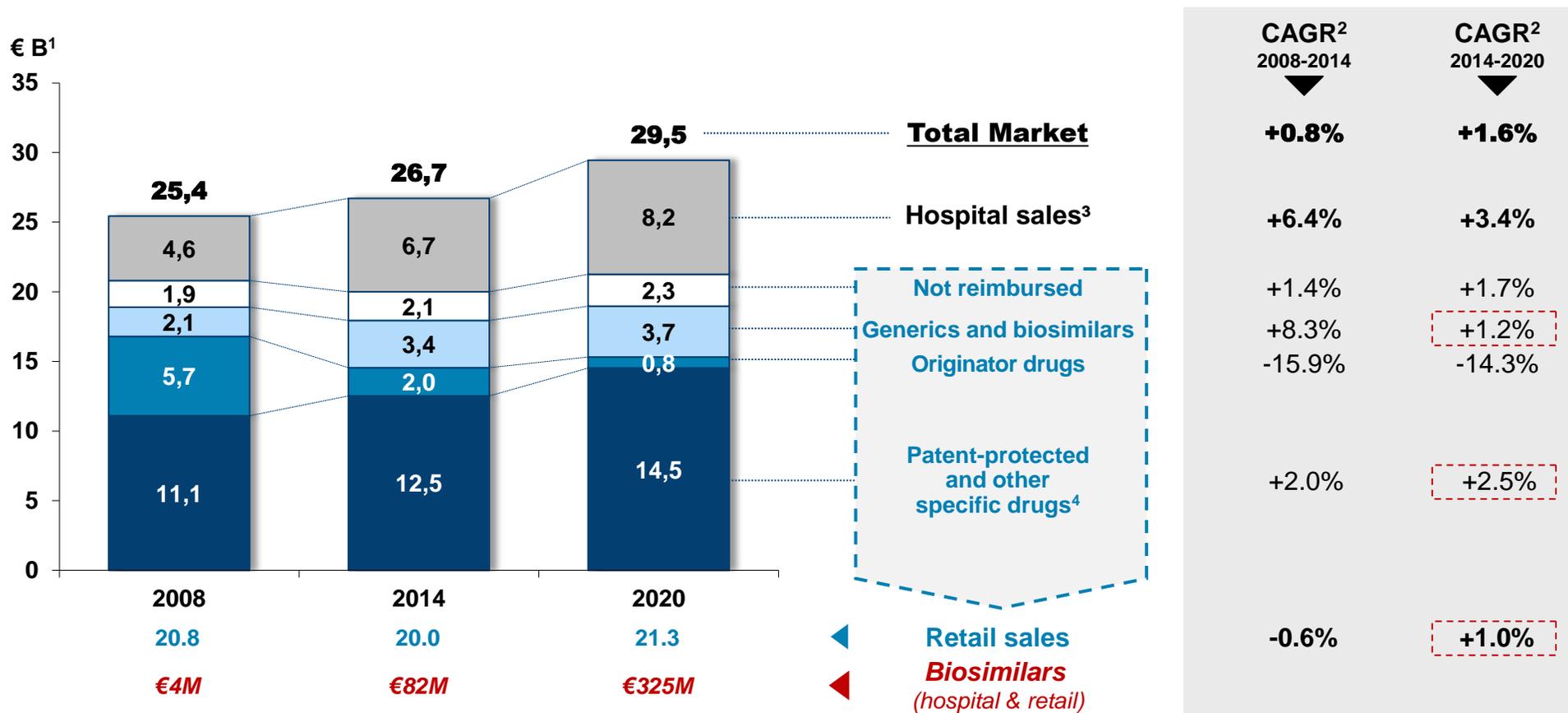
ASMR (Amélioration du service médical rendu): Improvement in medical benefit

Sources: HAS Annual Activity Reports (2007-2014) – Smart Pharma Consulting analyses

<sup>1</sup> Applications for first registration only, all procedures combined. An application may result in several different SMR / ASMR, depending on the considered indications

**Trend #6:** By 2020, drugs (reimbursed or not) sold in retail pharmacies should grow by 1% per annum only, due to price cuts imposed by health authorities

Evolution of drug sales by segment (2008 – 2014 – 2020)

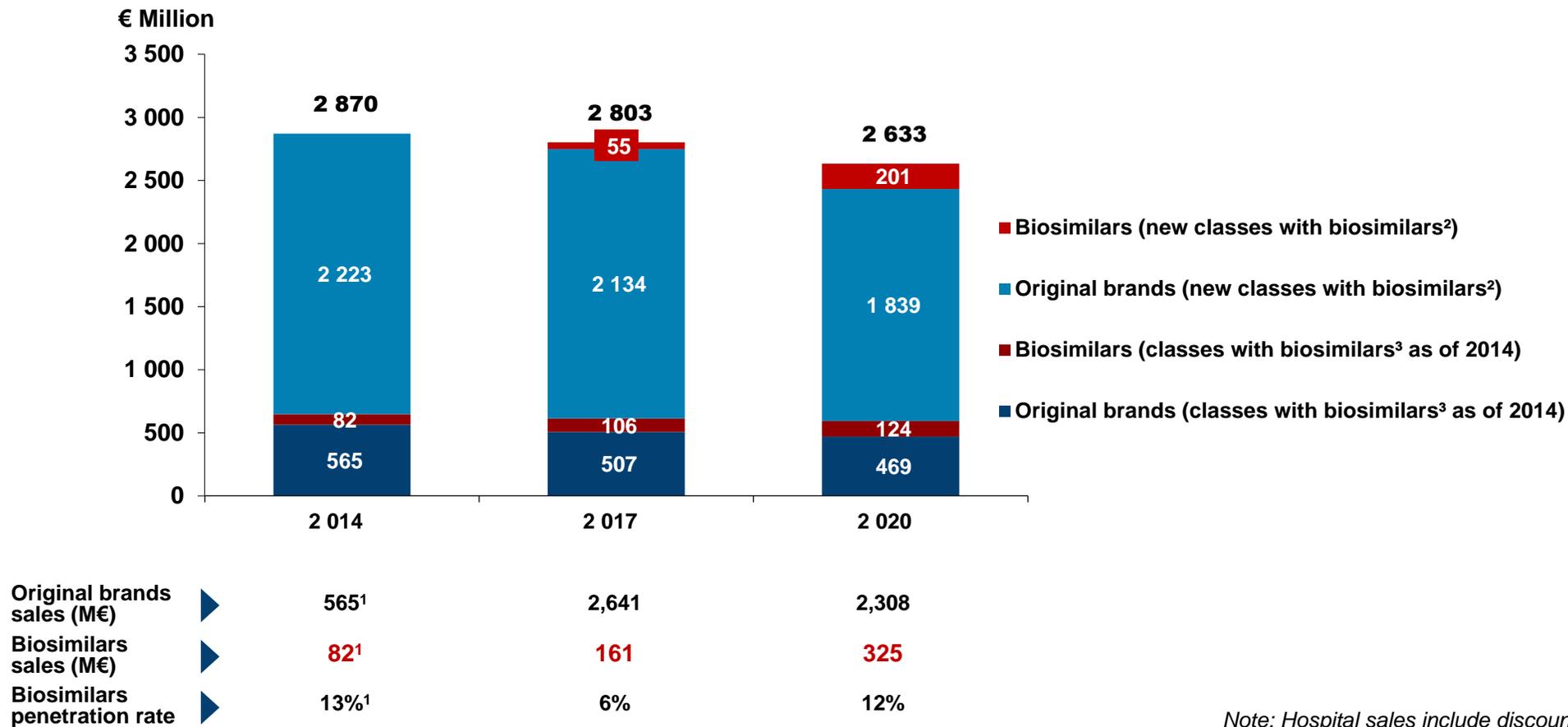


Sources: GERS and Top GERS data  
Smart Pharma Consulting analyses

<sup>1</sup> Constant ex-factory prices – <sup>2</sup> Compound annual growth rate – <sup>3</sup> Estimated rebated sales including hospital sales of biosimilars and products invoiced in addition of the hospitalization charges (Off T2A) and reassigned medicine sales – <sup>4</sup> Sales of medicines whose patents have not expired and of other specific products (calcium, sodium, potassium, paracetamol, etc.)

**Trend #7:** Biosimilars sales are expected to increase up to € 325 M in 2020 thanks to patent protection expiry of several products and in the absence of major measures

### Biosimilar market sales forecast (value) – Hospital and retail markets

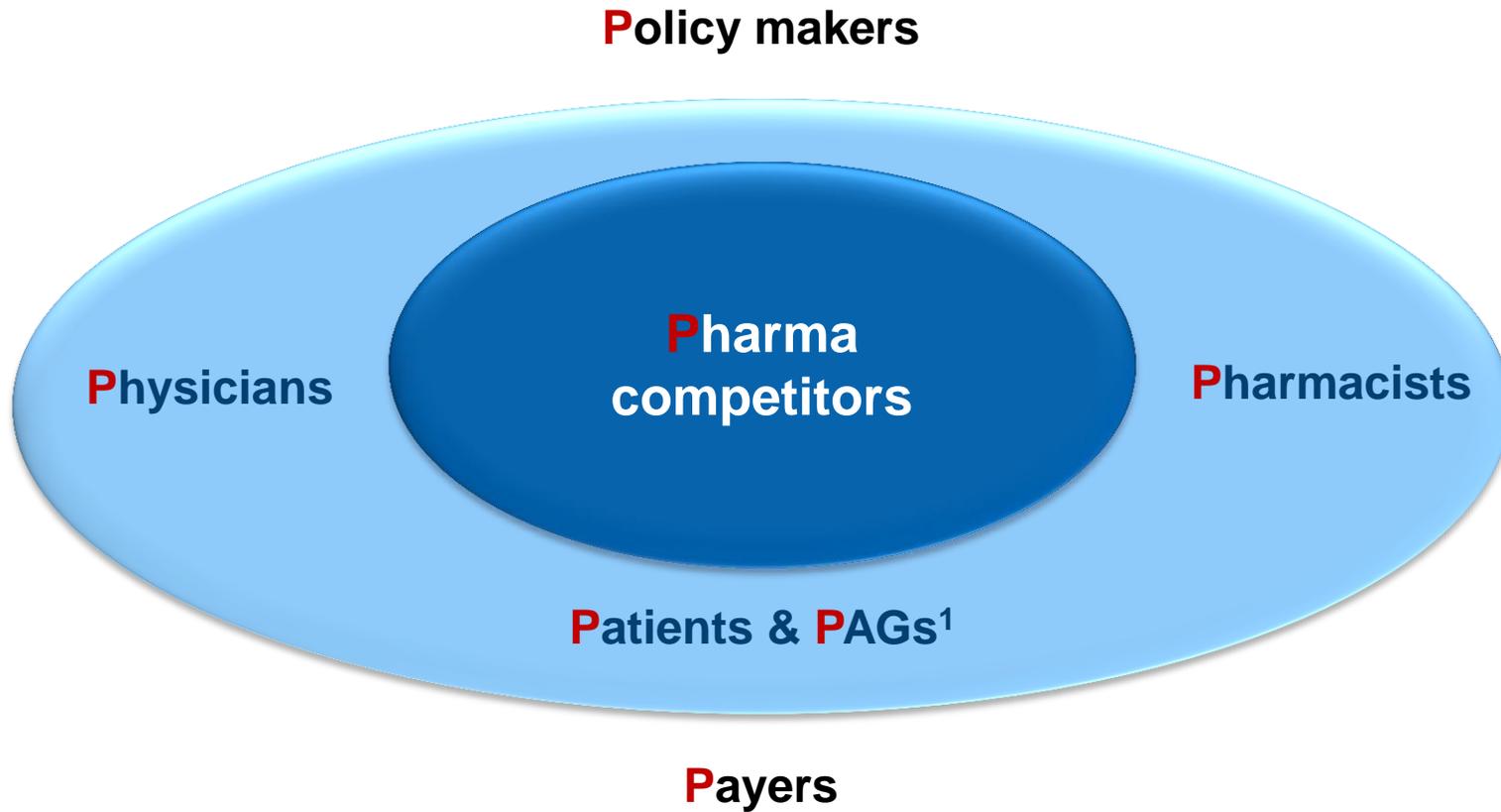


Sources: GERS retail – Smart Pharma Consulting analysis

<sup>1</sup> In value; 2014 only takes into account the classes in which biosimilars are already marketed – <sup>2</sup> Infliximab (Remicade), rituximab (MabThera/Rituxan), pegfilgrastim (Neulasta), trastuzumab (Herceptin), recombinant follitropins (Gonal-F and Puregon), etanercept (Enbrel), insulin glargine (Lantus), adalimumab (Humira), cetuximab (Erbix) and bevacizumab (Avastin) – <sup>3</sup> Growth hormones, erythropoiesis stimulating agents, and granulocyte colony-stimulating factors

Strategic priorities for pharma companies by 2020 will be linked with the behavior of the “7 Ps” stakeholders

The 7 Ps



Source: Smart Pharma Consulting analyses

<sup>1</sup> Patients Advocacy Groups

**Trend #8: Policy makers & Payers will work jointly to secure the sustainability of the healthcare system by reinforcing cost pressure, and especially on drugs**

**Policy makers & Payers**

**Behavioral Trends**

**Implications for Pharma Companies**

1 Apply drastic price cuts on drugs

- 1
  - **More stringent price and reimbursement decisions** (i.e. number of indications, volume per indication, patient profiles, etc.)
  - **Accelerated price decrease** over time for reimbursed drugs and higher **risk of delisting**
  - Measures to **boost generics and biosimilars**

2 Give earlier / broader access to innovation

2 **New regulations through which during ATU (EAP<sup>1</sup>) reimbursement is secured until the price of the drug is granted by the CEPS**

3 Improve patients management / adherence

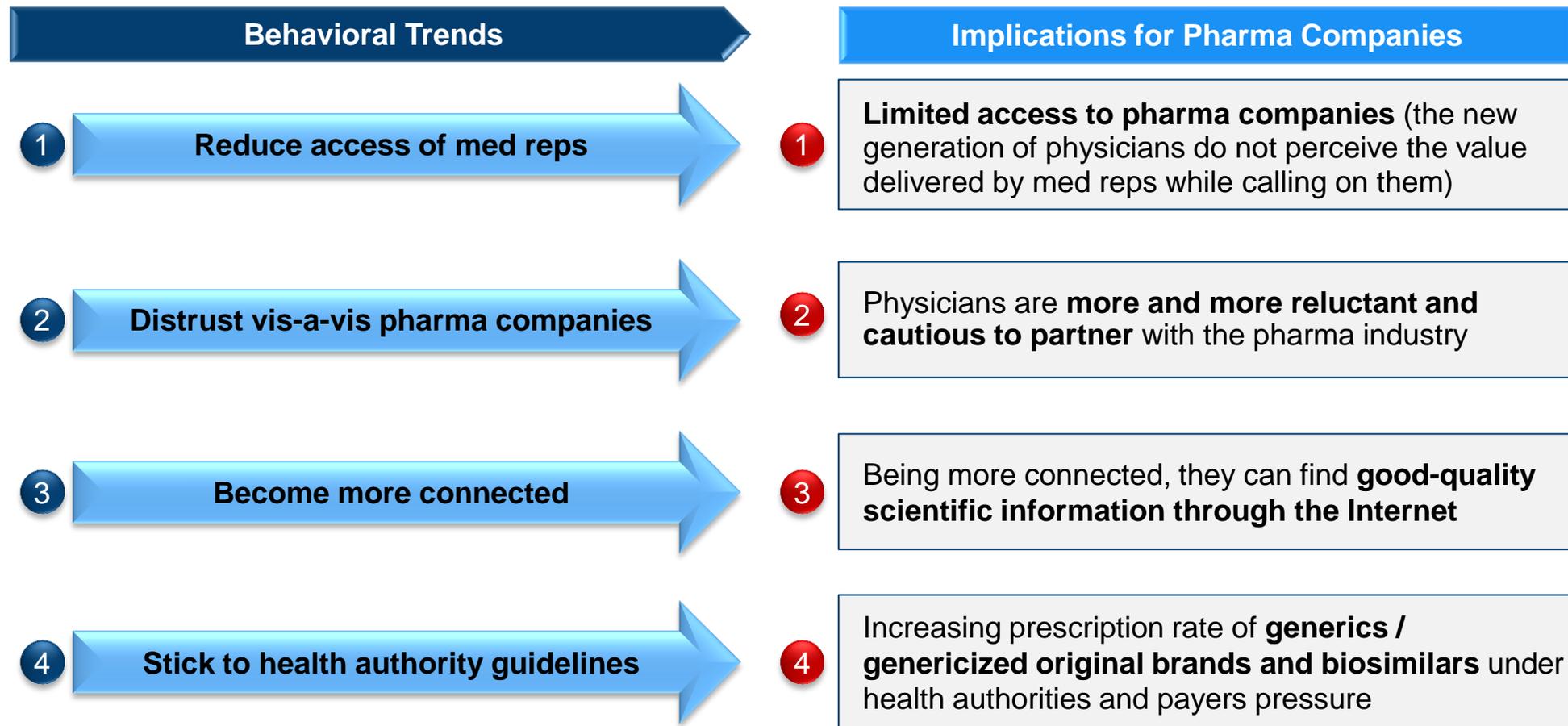
- 3
  - **Measures to reinforce healthcare networks and patient follow-up<sup>2</sup>**
  - **Incentives<sup>3</sup> for GPs** (and possibly for specialists) **who comply with “best prescribing practices” and who follow-up their patients**

Source: Smart Pharma Consulting analyses

<sup>1</sup> Early Access Program – <sup>2</sup> Resources allocated to coordinate healthcare networks (see MoH healthcare project of June 2014) – <sup>3</sup> RO SP contracts: Rémunération sur Objectifs de Santé Publique, formerly called CAPI

**Trend #9:** Physicians are becoming more and more reluctant to partner with pharma companies and more attentive to the reputation of the latter

Physicians



Source: Smart Pharma Consulting analyses

**Trend #10:** Pharmacists are open to collaborate with pharma companies on a fee-for-service basis to carry out patients screening, adherence and management programs

**Pharmacists**

**Behavioral Trends**

**Implications for Pharma Companies**

1

Lower purchasing costs

1

Pharmacists **increase direct purchasing from pharma companies to get better prices** (enabling to track parallel trade and reduce risks of shortages)

2

Develop fee-for-services

2

Pharmacists are looking for **partnerships with pharma companies** on a fee-for-service basis regarding: screening of patients, patients adherence programs, etc.

3

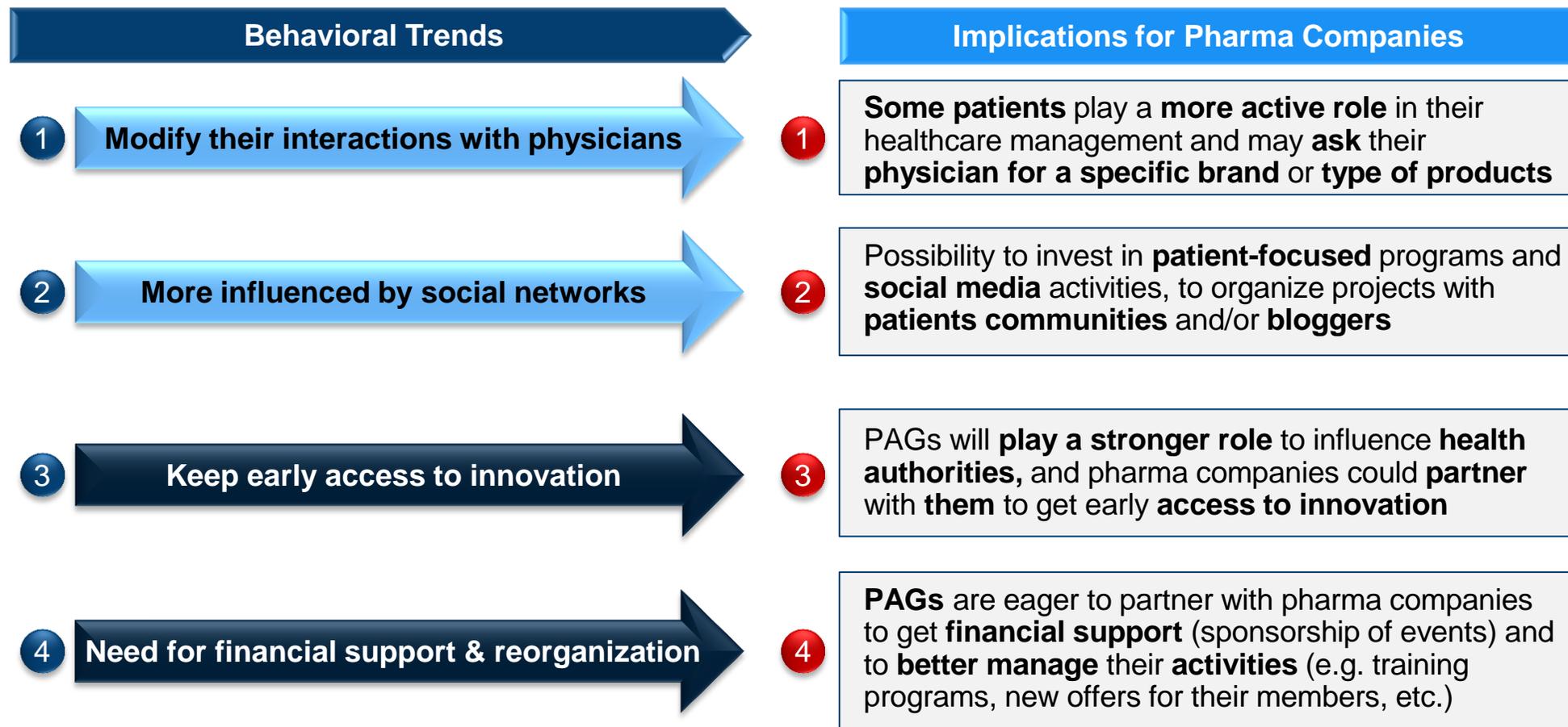
Offer home care / home delivery

3

Pharmacists are **induced to develop highly profitable and/or dynamic segments** (e.g. generics, OTCs, home care and home delivery services)

**Trend #11: Patients & PAGs<sup>1</sup> will increase their influence at Policy makers & Payers to facilitate access to innovation, maintain reimbursement and raise patients' rights**

**Patients & PAGs**



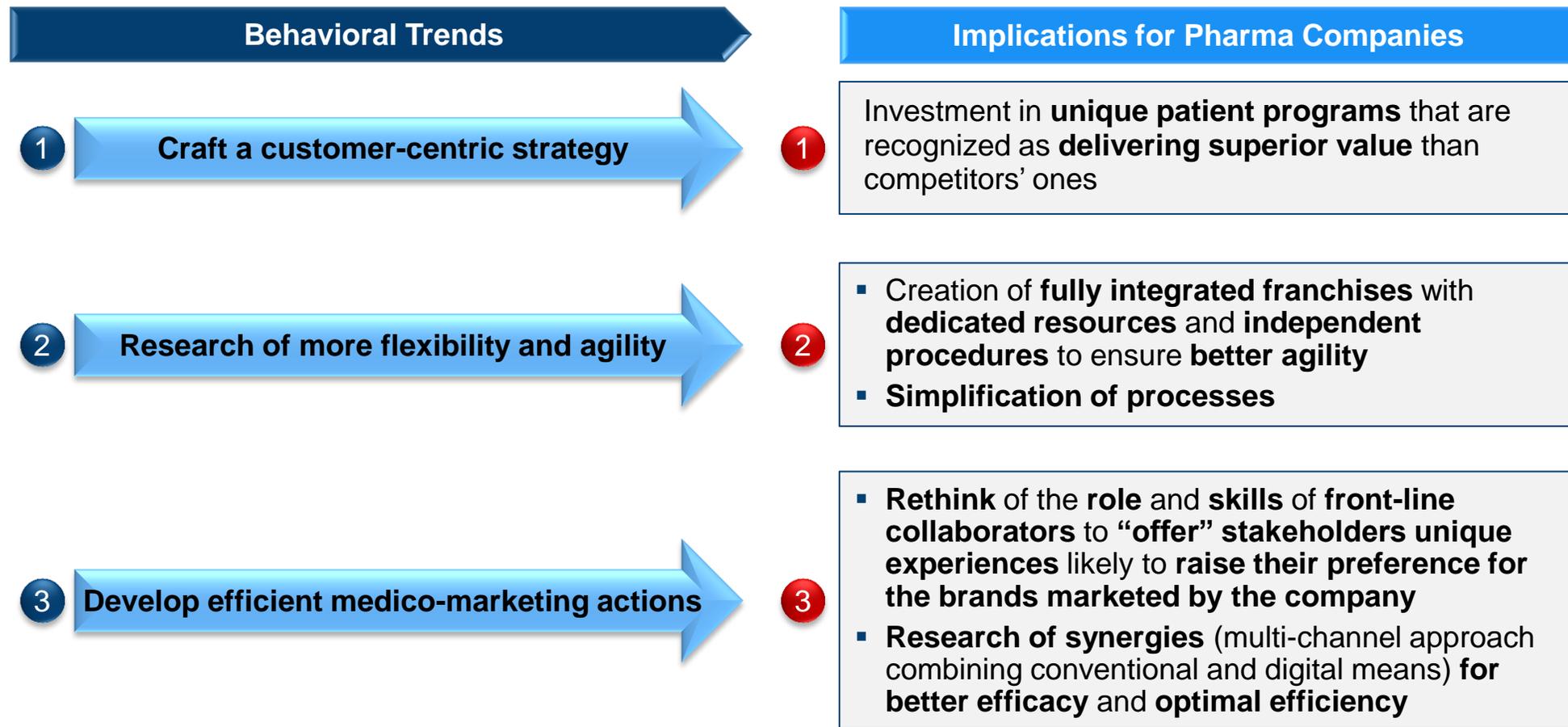
Source: Smart Pharma Consulting analyses

 Patients  PAGs

<sup>1</sup> Patient advocacy groups

**Trend #12:** Pharma companies will strive to differentiate from competition by offering highly valued products and services benefiting HCPs<sup>1</sup> and other stakeholders

Pharma competitors

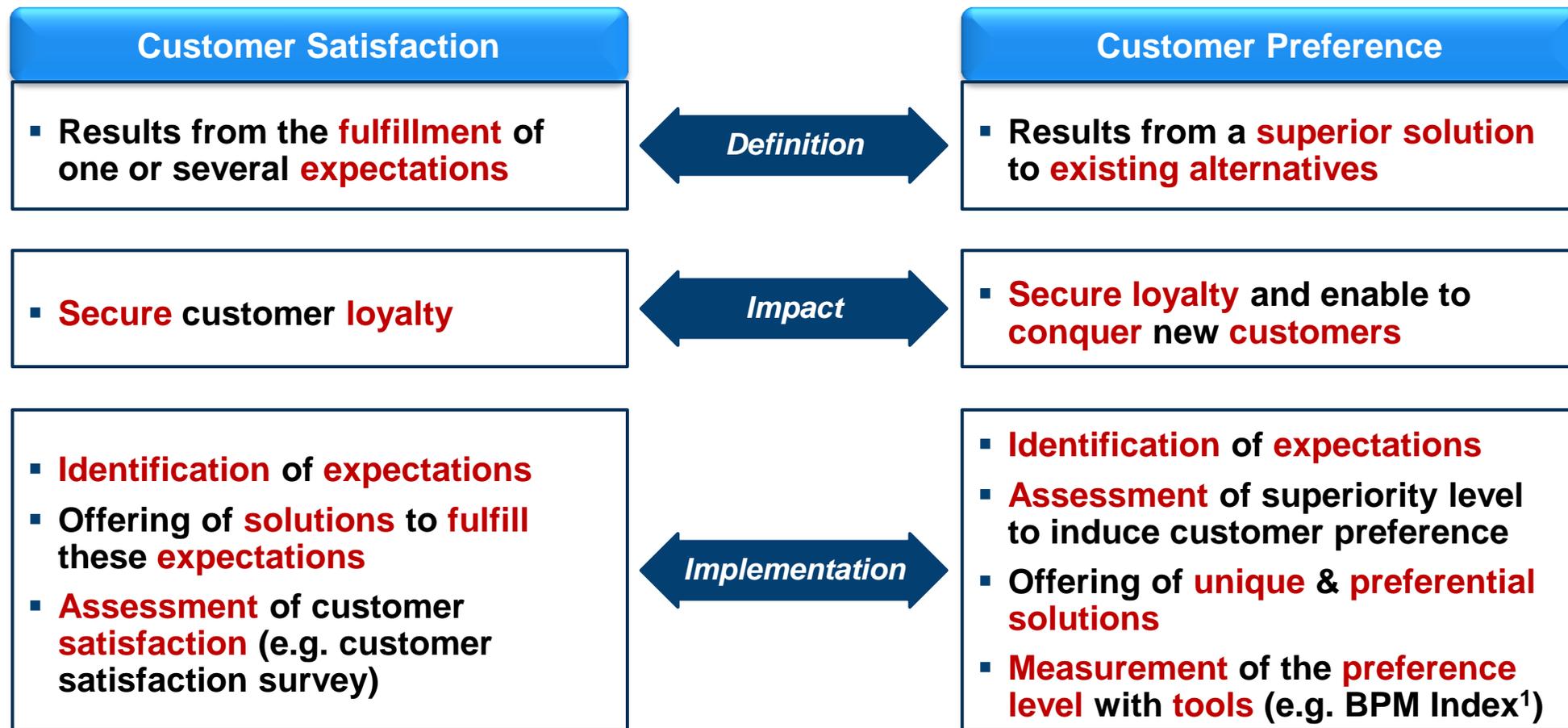


Source: Smart Pharma Consulting analyses

<sup>1</sup> Healthcare Professionals

**Challenge #1:** Replace customer satisfaction by customer preference as a strategic driver to gain market share, at the expense of competitors

**In search of customer preference**



Source: Smart Pharma Consulting analyses

<sup>1</sup> Brand Preference Mix index

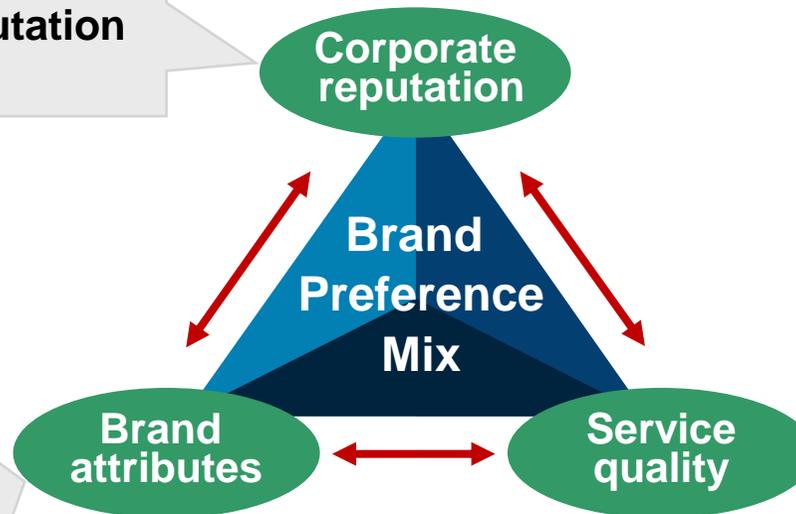
To boost the preference of physicians for their marketed brands, pharmaceutical companies can leverage the three components of their Brand Preference Mix

### The Brand Preference Mix (BPM)

Key levers to be activated

- Convey an appealing corporate identity
- Maintain a corporate reputation that induces preference

- Highlight attributes in a way that generates preference
- Create a perception of uniqueness
- Leverage corporate reputation & service offering

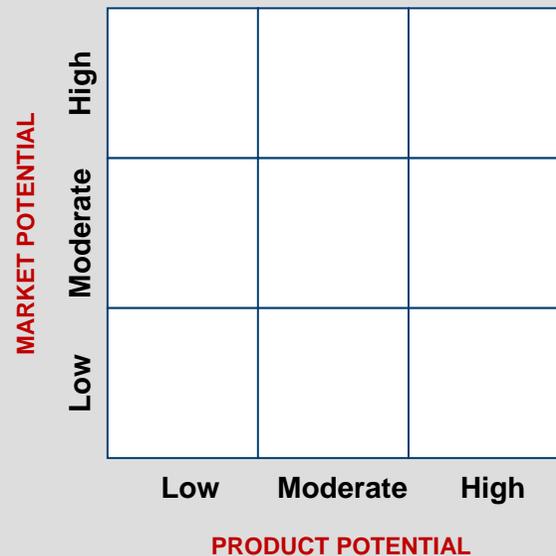


- Deliver unique services...
- ... that are highly valued [Interest – Utility – Practicality – Quality of execution]
- Select and design services that will lead to corporate and / or brand preference
- Make sure services are related to the company and / or the brand

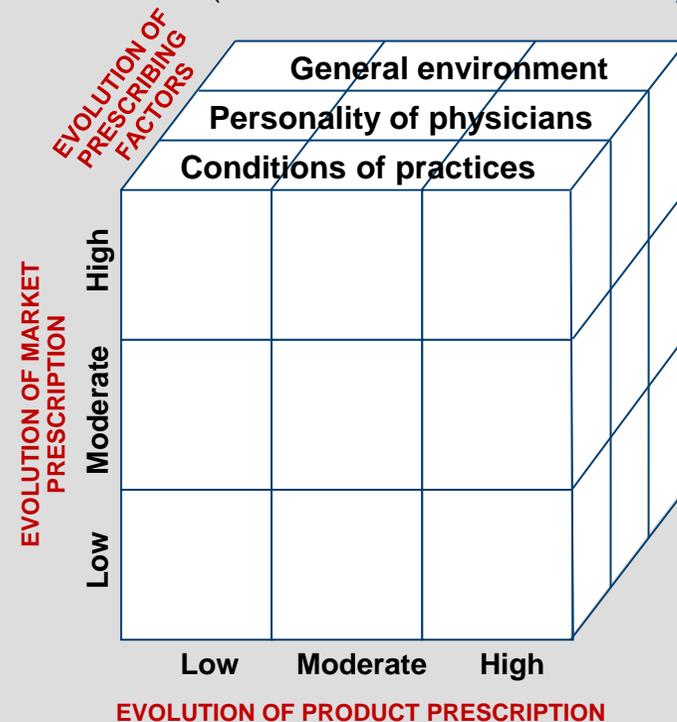
**Challenge #2:** Adopt a dynamic profiling of customers, to capture more relevant and accurate insights regarding the prescribing potential of physicians

**Static vs. Dynamic segmentation of physicians**

Static segmentation



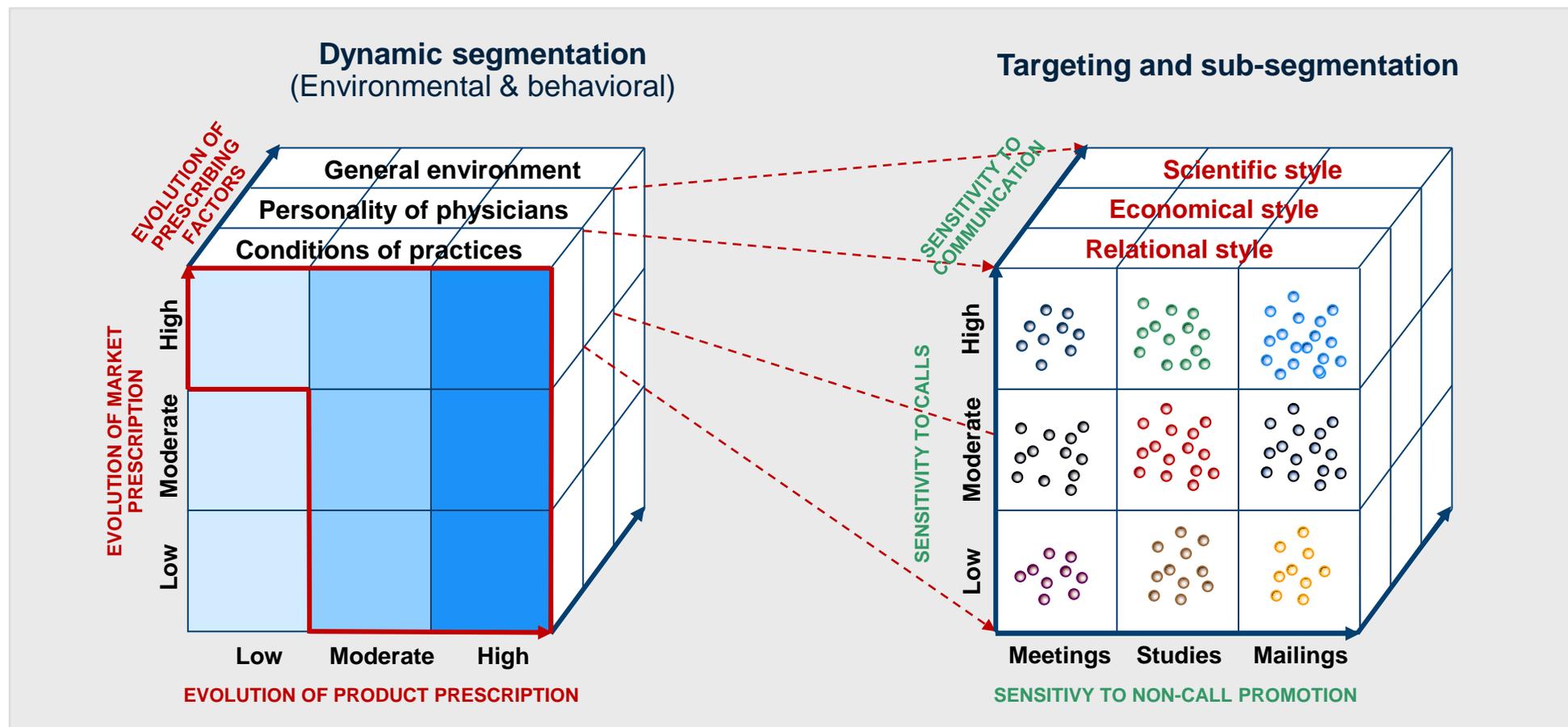
Dynamic segmentation  
(Environmental & behavioral)



Source : Smart Pharma Consulting

**Challenge #3:** Allocate the level and nature of medico-marketing actions not only on physician prescribing potential but also on their likelihood to be influenced

**Physicians sensitivity-based targeting**



Sources: Smart Pharma Consulting analyses

**Challenge #4:** Develop a kind of “individual marketing plan” by physician to get a greater efficiency (return on investment)

**Individualized marketing strategy**

**Dynamic segmentation**

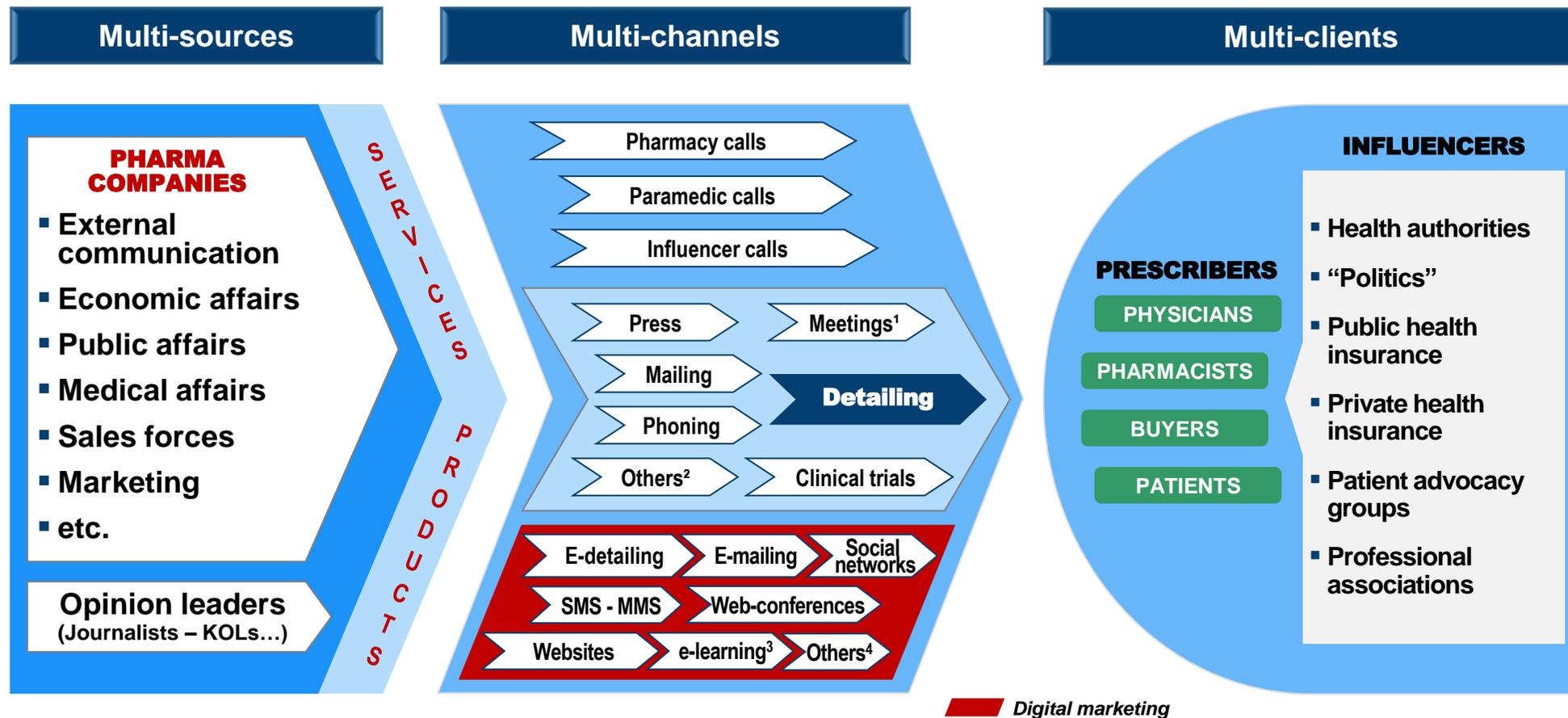
**Quantitative and qualitative adjustment**

Physicians	Dynamic segmentation			Quantitative and qualitative adjustment				
	Evol. of Market/ Products Rx	Sensitivity to calls/marketing	Leading Rx drivers	# of Calls	# of Meetings	# of Studies	# of Mailings	Communication styles
Clarke	High / Moderate	High / Mailings	Emotional	12	2	0	4	Dialogue / Services
Dylan	Moderate / High	High / Meetings	Medical	8	5	0	0	Scientific only
Lopez	High / High	Low / Studies	Medical	6	1	2	0	Scientific only
Martin	Moderate / Moderate	High / Meetings	Economic	6	2	1	1	Scientific / Services
Taylor	Low / Low	High / Meetings	Emotional	4	1	0	0	Dialogue / Services

Sources: Interviews with pharma companies – Smart Pharma Consulting analyses

## Challenge #5: Ensure a shared vision and an effective coordination between customer-facing & customer-supporting collaborators of pharma companies

### Changes in the pharma promotional environment (1/2)



Sources: Smart Pharma Consulting analyses

<sup>1</sup> Round tables, symposia, congresses... – <sup>2</sup> Sampling, gimmicks, grants, prescription pads... – <sup>3</sup> Continuous medical education through a digital interface – <sup>4</sup> Screen savers, popup windows...

### Challenge #6: Redefine marketing strategies and corresponding tactics to maintain the contact with physicians who increasingly refuse face-to-face calls

#### Changes in the pharma promotional environment (2/2)

- Strengthening of **CRM<sup>1</sup> tools** allowing a more precise profiling of customers

- **Tighter control** of medical calls by health authorities
- Higher proportion of **physicians refusing** face-to-face calls
- Portfolio evolution from **primary to secondary care** products
- Increasing **role of other stakeholders<sup>2</sup>** influencing physician prescriptions

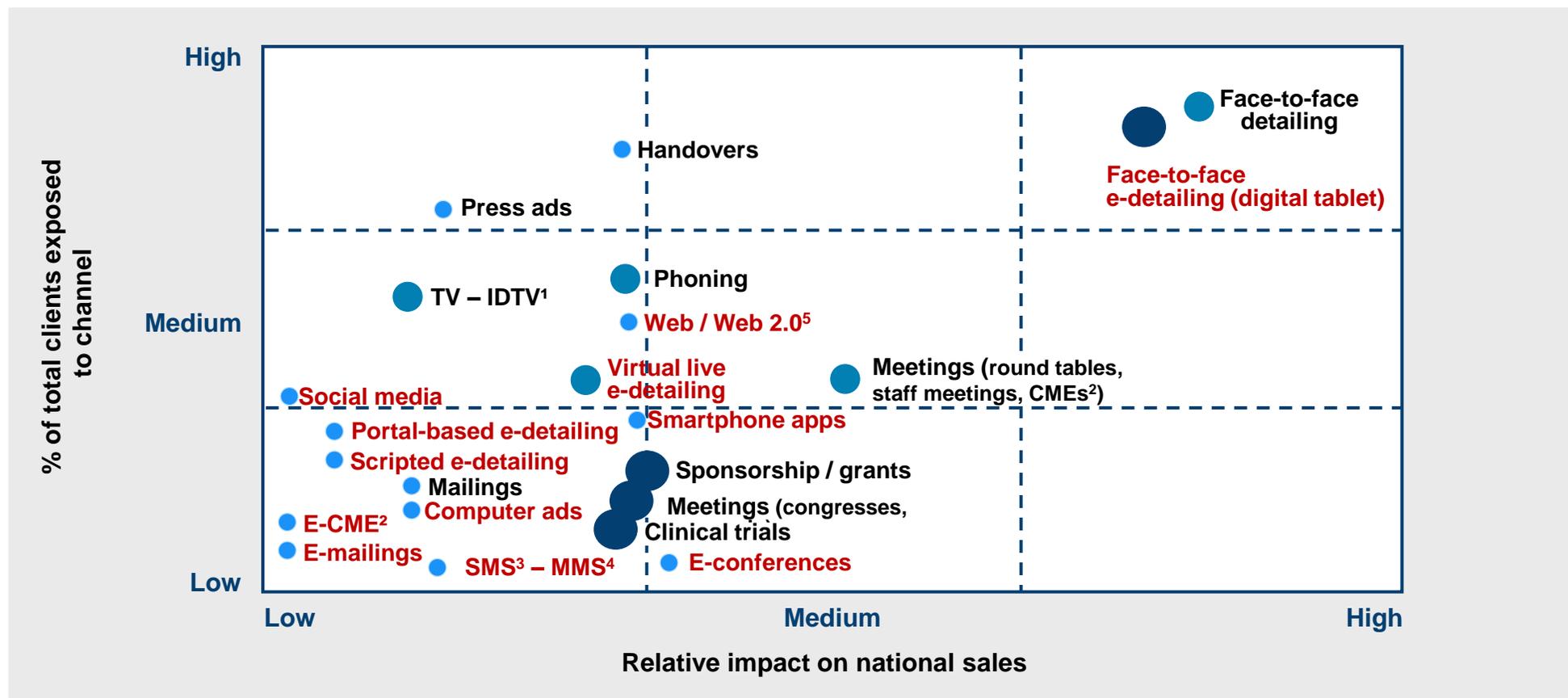


- Need to **adapt communication**:
  - Content
  - Channels
 to **multiple stakeholders<sup>2</sup>**
- **Reduced** marketing and sales budgets
- Switch **priority** from efficacy to **efficiency**

- **Lower number** of new products with **high sales potential**, leading companies to try to:
  - **Improve** the level of **return on investment** of each promotional activity
  - **Maximize** the **profits** of products by using more efficient **multi-channel approaches** (trigger marketing)
- Less favorable economical context

**Challenge #7:** Keep digital channels for what they have proved to be: a valuable complement of conventional channels to be carried out on well-defined targets

Promotional channel evaluation matrix



Digital channels

Relative cost per effective contact: High (Large Blue Circle) Medium (Medium Blue Circle) Low (Small Blue Circle)

Sources: Smart Pharma Consulting analyses

<sup>1</sup> Interactive digital television – <sup>2</sup> Continuous medical education – <sup>3</sup> Short message service – <sup>4</sup> Multimedia message service – <sup>5</sup> Including websites and blogs

## Recommendations

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If all pharma companies are subject to the same rules, the impact of the latter differs according to their corporate reputation and to the value of their products and services

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### Key points for pharma companies

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- **Point #1** **Demonstrate** – better than competitors – what is the **fair value** of its own drugs compared to alternatives with robust data and a convincing “story”
- **Point #2** Once on the market, **develop a strategy** likely to **boost** customer **preference** to gain market share
- **Point #3** Partner **with pharmacists** to carry out **patients’ management programs**, providing they can be leveraged to **boost** corporate **reputation**
- **Point #4** **Help PAGs**<sup>1</sup> better **manage** their **activities** and better **influence** **healthcare decisions** at government level
- **Point #5** Give **priority** to **efficiency** of investment **over** their **efficacy** by assessing their relevance and the quality of their execution

## Core capabilities

### 1 Strategy

- Assessing the attractiveness of markets (Hospital / retail innovative products - Vaccines - OTC - Generics)
- Growth strategy
  - Optimization of marketing / sales investments
  - Development of a company in the hospital market Business
  - Valuation for acquisition
  - Portfolio / franchise assessment
- Extension of product life cycle performance
  - Improvement mature products performance
  - Adaptation of price strategy
- Defense strategies vs. new entrants
- Competitive strategies in the hospital market
- Strategic partnerships companies / pharmacies

### 2 Management

- Facilitation and structuring of strategic thinking for multidisciplinary product teams
  - Key challenges identification
  - Strategic options formalization
  - Resource allocation optimization program
- Training of marketing and market research teams to sales forecast techniques (modeling and scenarios development)
- Development and implementation of a "coaching program" for area managers
  - Sales reps coaching
  - Regional action plans roll-out
- Development and implementation of a "sales techniques program" for sales forces (STAR<sup>1</sup>)

<sup>1</sup> Sales Techniques Application for Results (training course)



### 3 Organization

- Rethink of operational units organization
- Improvement of sales force effectiveness
- Improvement of the distribution channels covering the hospital and retail markets
- Development of a strategic planning process