

# How to create a superior Pharma Corporate Reputation?

15 Years  
in Search of  
Innovative  
Solutions

The “Pharma Corporate  
Reputation Booster™”

*A practical approach to strengthen  
your competitive position*

*Position Paper*

**August 2016**



**Smart Pharma**  
**Consulting**

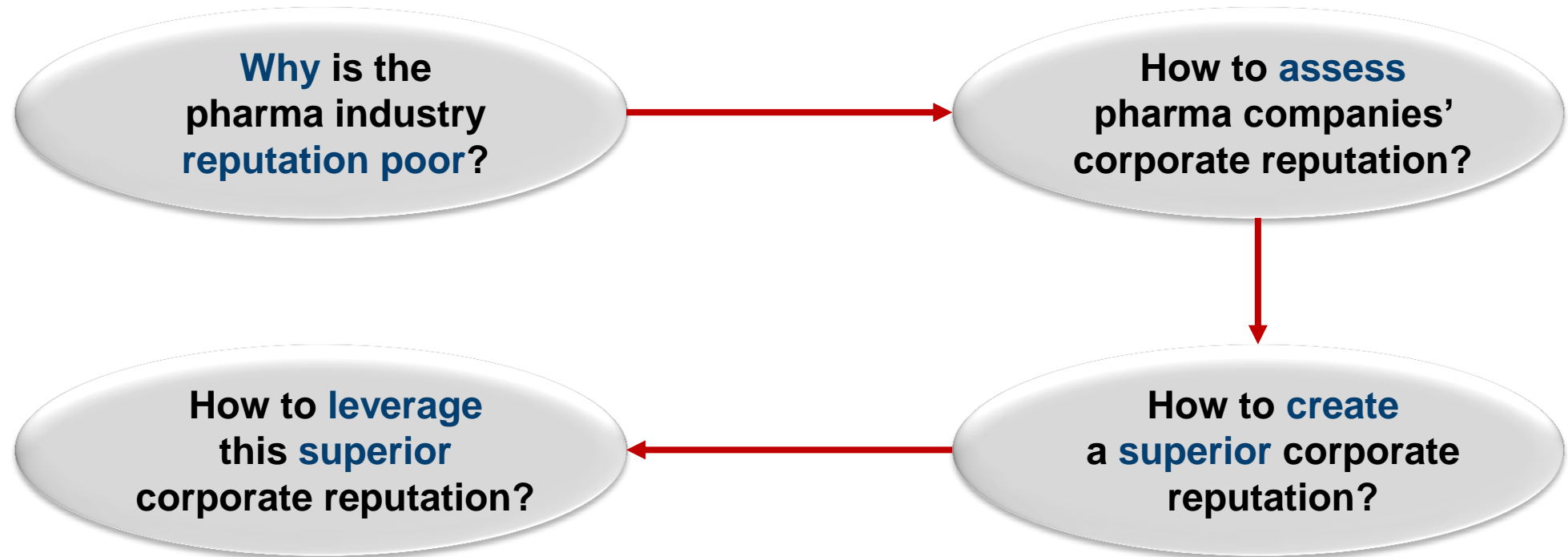
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This position paper proposes a practical approach to help pharma companies create a superior corporate reputation and make it a sustainable competitive advantage

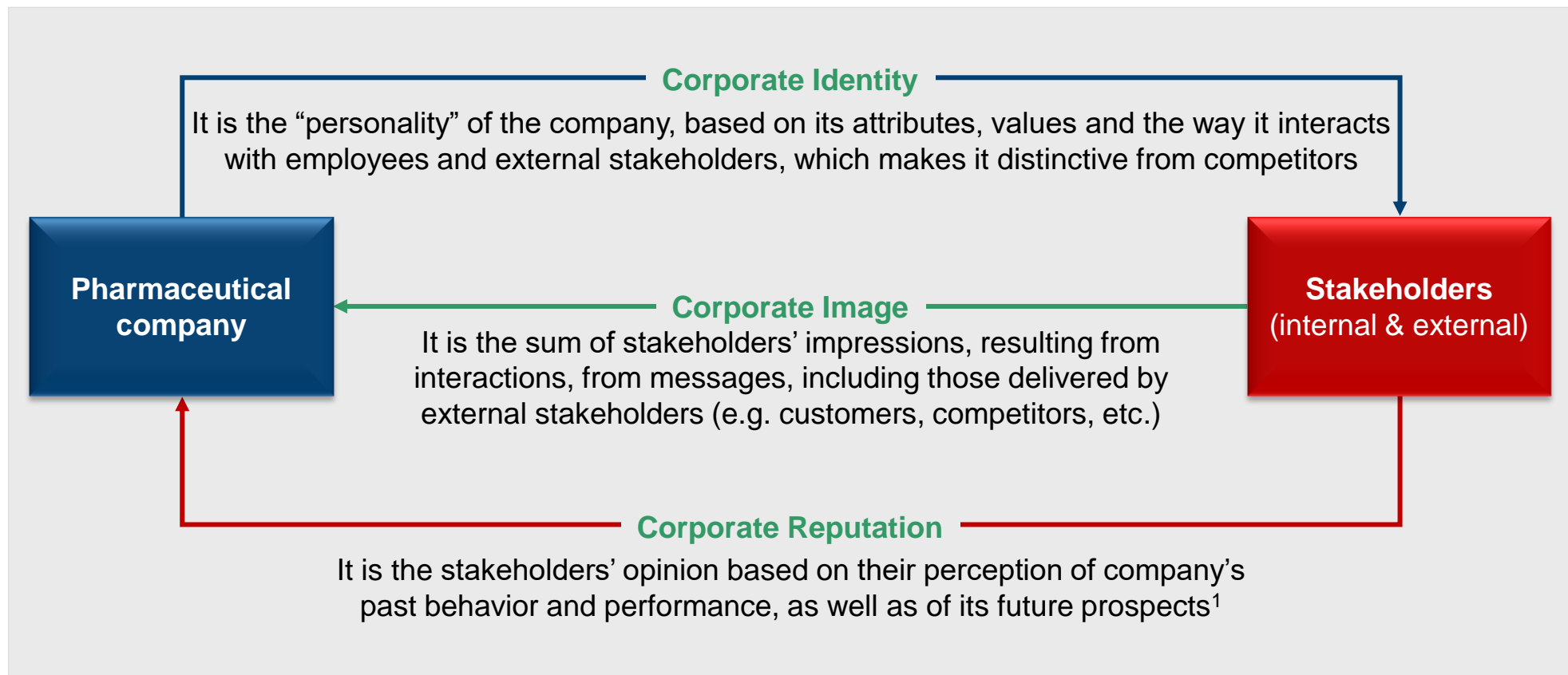
**Key issues addressed**



***“A corporate reputation must not only be good...  
... it must be superior to that of competitors to create a competitive advantage”***

**A company's reputation is built from its relationship with staff, customers, suppliers, investors, authorities and the community it operates within**

**Conceptual link between corporate Identity – Image – Reputation**



Source: Adapted from D.A Whetten and A. Mackey 2002, M. L. Barnett et al. 2006, K Goldstein et al. 2011, P. Marquina Feldman et al. 2013, by Smart Pharma Consulting

<sup>1</sup> The perception (judgement) of stakeholders can be influenced by external factors such as: media coverage, new regulations, change in customers' behavior and/or competitors strategy

## Higher corporate reputation leads to increase operational efficacy and efficiency which impacts companies' performance

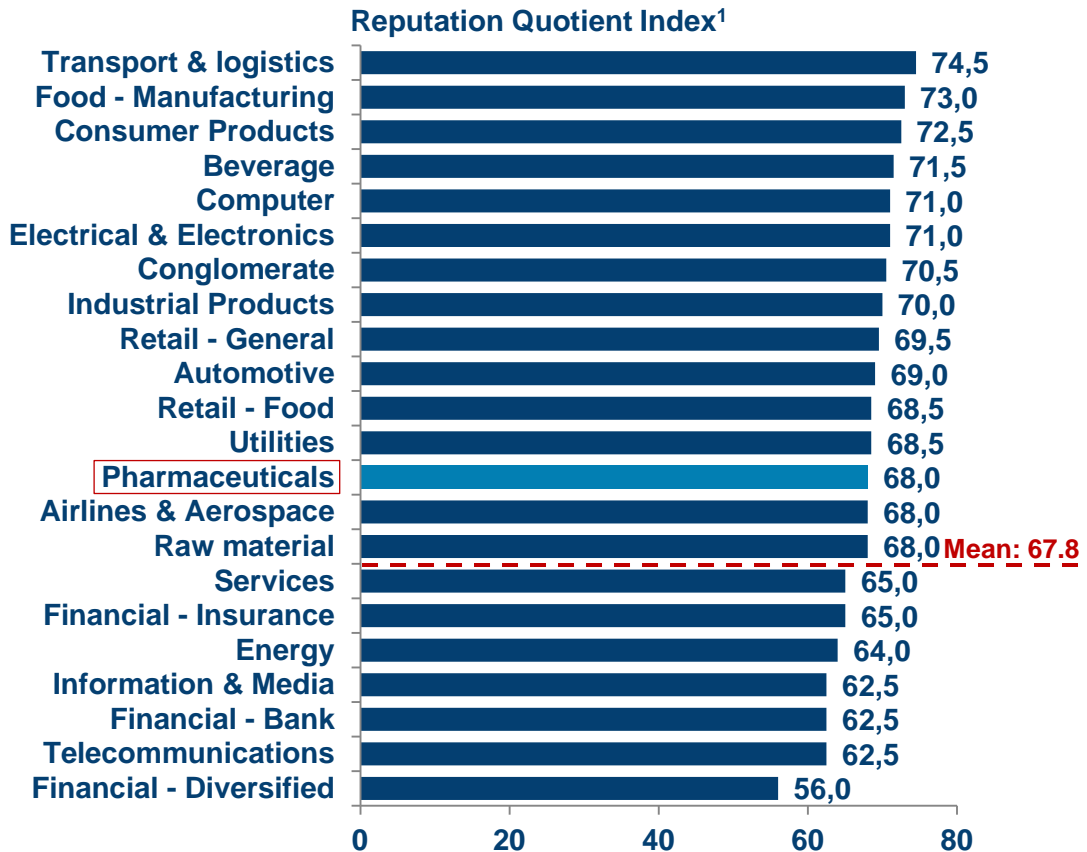
### Impact of corporate reputation on performance

A good corporate reputation is an emotional bound that can boost a company's success by:

- Generating more positive feedback from media and pressure groups
- Creating a more favorable outlook from regulators and rating agencies, thus decreasing financing cost and increasing value
- Attracting capital resources and strategic business partners, thus expanding business opportunities
- Attracting, motivating and retaining talented employees, thus enhancing innovation capabilities and value
- Encouraging consumers to buy products and services
- Driving profitable sales in crowded markets
- Resisting better in a crisis mode, investors giving the company the benefit of the doubt

Despite its significant contribution to public health and patients quality of life, the pharma sector does not benefit from a good reputation

### Ranking of pharma industry corporate reputation in the USA (2014)



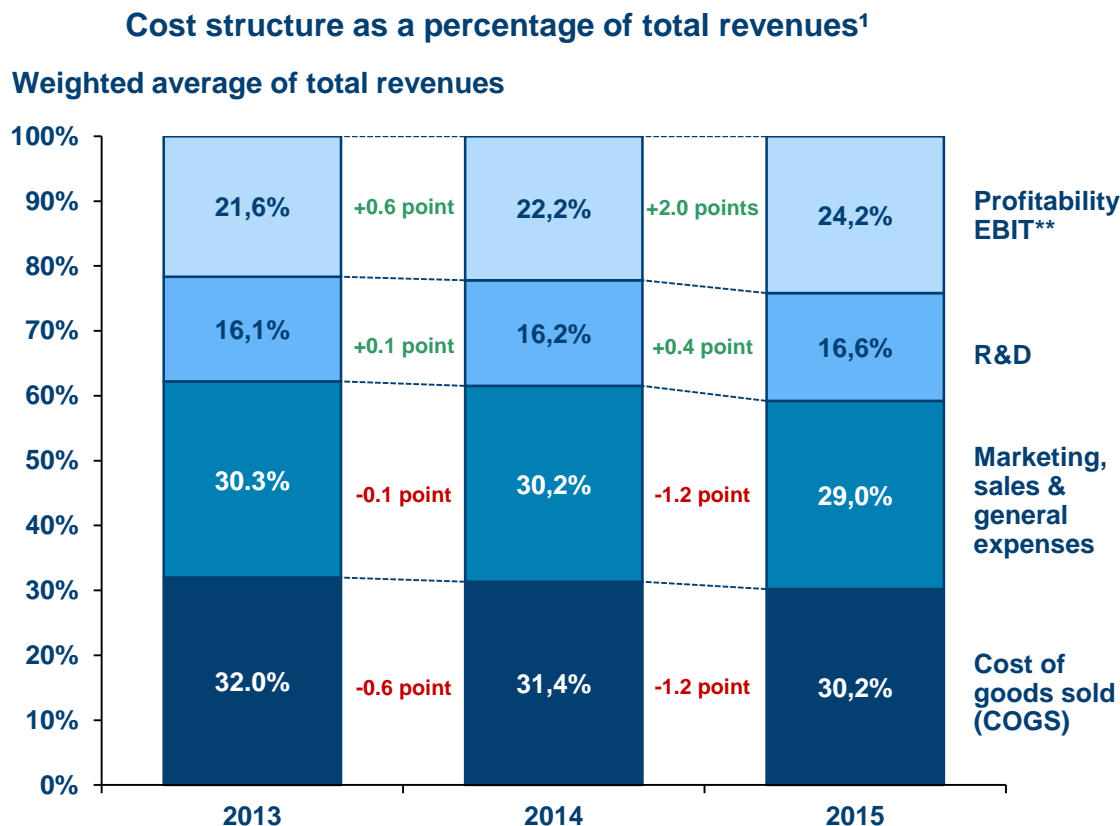
#### Main reasons for the pharma sector poor reputation

- **Culture & “Life style”:**
  - Perception of over-priced drugs (e.g. oncology drugs)
  - Excessive executive salaries and opulent offices
  - Lack of transparency (e.g. drug pricing, clinical study results, collaborations with KOLs, etc.)
- **R&D & marketing strategies:**
  - R&D priority given to “me-too” products vs. innovative ones/solutions to address neglected pathologies<sup>2</sup>
  - Poor strategy leading to pipelines issues
  - Over-intensive sales and marketing activities representing twice as much as R&D budgets
  - Illegal marketing practices (e.g. off-label promotion)
- **Financial performance:**
  - High level of profitability (10 points of percentage higher than the average of all industrial sectors, over the 2013-2015 period)<sup>3</sup>

*“Distrust of the pharma industry stems from a belief by stakeholders that the industry has deviated from its original vision of improving public health to focus on increasing company profits”*

Pharma companies are often criticized for investing twice as much in marketing & sales as in R&D and for making profits considered as too high\*

### Evolution of the top 30 pharma cost structure (2013 – 2015)



#### Comments

- The average profitability of the top 30 pharma companies in the world has increased by 2.6 points of percentage between 2013 and 2015
- This improvement can be explained by:
  - The restructuring of product portfolio with an increased importance of higher priced secondary care vs. primary care products
  - The marketing and sales investment for these specialist-driven secondary care products which is lower than for GP-driven primary care products
  - Restructuring and streamlining initiatives to improve the economic performance
- These good financial performances contribute to deteriorate the reputation of the pharma sector as it is perceived by the general public and health authorities...
- ... while the effect is opposite on investors and stakeholders

Note: panel of the 30 biggest pharma companies in terms of prescription sales as of 2014

\* 10 points of percentage higher than the average of all industrial sectors, over the 2013-2015 period

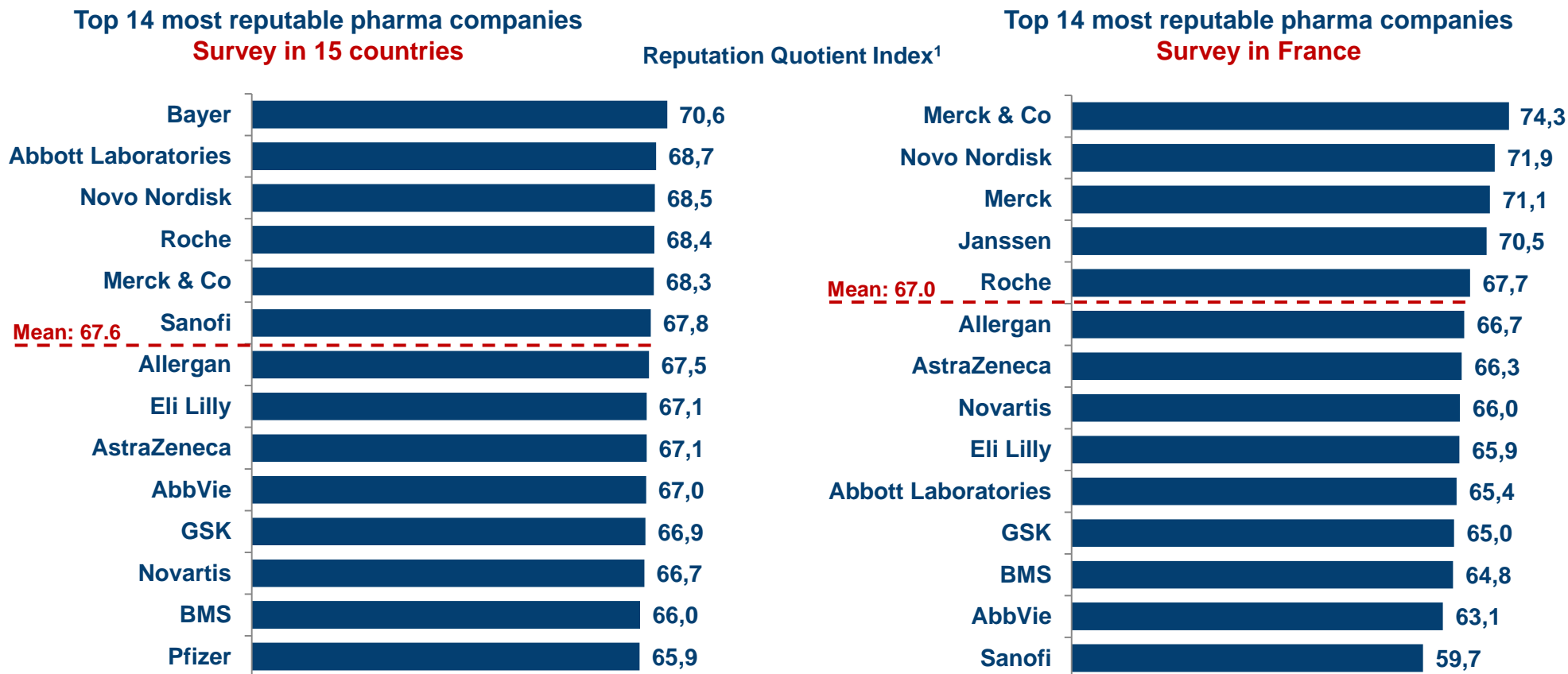
\*\* Earnings before interests and taxes

Sources: Companies annual reports – Federal Reserve annual exchange rates – Smart Pharma Consulting estimates

<sup>1</sup> Excluding Astellas, Daiichi Sankyo and Takeda for which FY2015 financial reports are not published at the moment of the study (due to their fiscal years ending in March) – Excluding for 2015 Actavis which merged with Allergan – Excluding Servier over the whole period for not publishing financial results and Boehringer Ingelheim for publishing non-standardized financial results

If the ranking of pharma companies by the general public is key, the opinion of other stakeholders (e.g. authorities, payers, patients, physicians, investors) is a must have

### Ranking of pharma companies corporate reputation (2016)



Sources: Pharma RepTrak®2016 (23,000 ratings from general public in 15 countries, of which 1,894 in France), Reputation Institute 2016

<sup>1</sup> Based on 7 indicators: Products/Services, Innovation, Workplace, Governance, Citizenship, Leadership, Financial performance; and with score > 80 = Excellent/top Tier, 70-79 = Strong/Robust, 60-69 = Average/Moderate, 40-59 = Weak/Vulnerable, < 40 = Poor/Bottom Tier

The global and individual reputation of pharma companies can be improved through a higher focus on innovative R&D, access programs and ethic in business practices

### Global corporate reputation of the pharma industry

#### The 3 pillars of corporate reputation in the pharma industry

Involvement in R&D and innovation	Access initiatives & CSR <sup>1</sup>	Ethic in business and marketing practices
<ul style="list-style-type: none"> <li>Focus investments on current unmet medical needs rather than on market potential only</li> <li>Keep an R&amp;D / marketing &amp; sales investment ratio &gt;1</li> <li>Invest in R&amp;D and in manufacturing in countries of interest</li> </ul>	<ul style="list-style-type: none"> <li>Ensure access to the medicines to every patient (through performance-based pricing agreements with payers, financial support for uninsured patients)</li> <li>Propose initiatives focused at patients aiming at improving education / compliance / use</li> <li>Focus on your employees satisfaction at work</li> </ul>	<ul style="list-style-type: none"> <li>Communicate transparently regarding R&amp;D costs and results, pricing and marketing practices</li> <li>Avoid over-claim and provide objective information</li> <li>Patient-focused initiatives aiming at a better education / compliance / products good use</li> </ul>

**Communication** (direct by pharma companies and indirect by external influencers)<sup>2</sup>

***“Reputation and trust are not a given!***

***They are earned through actions, results, and the way companies communicate to stakeholders”***

Sources: “The reputation, image and influence of the pharmaceutical industry: Regaining credibility”, Journal of Medical Marketing, 2007 – Smart Pharma Consulting analysis

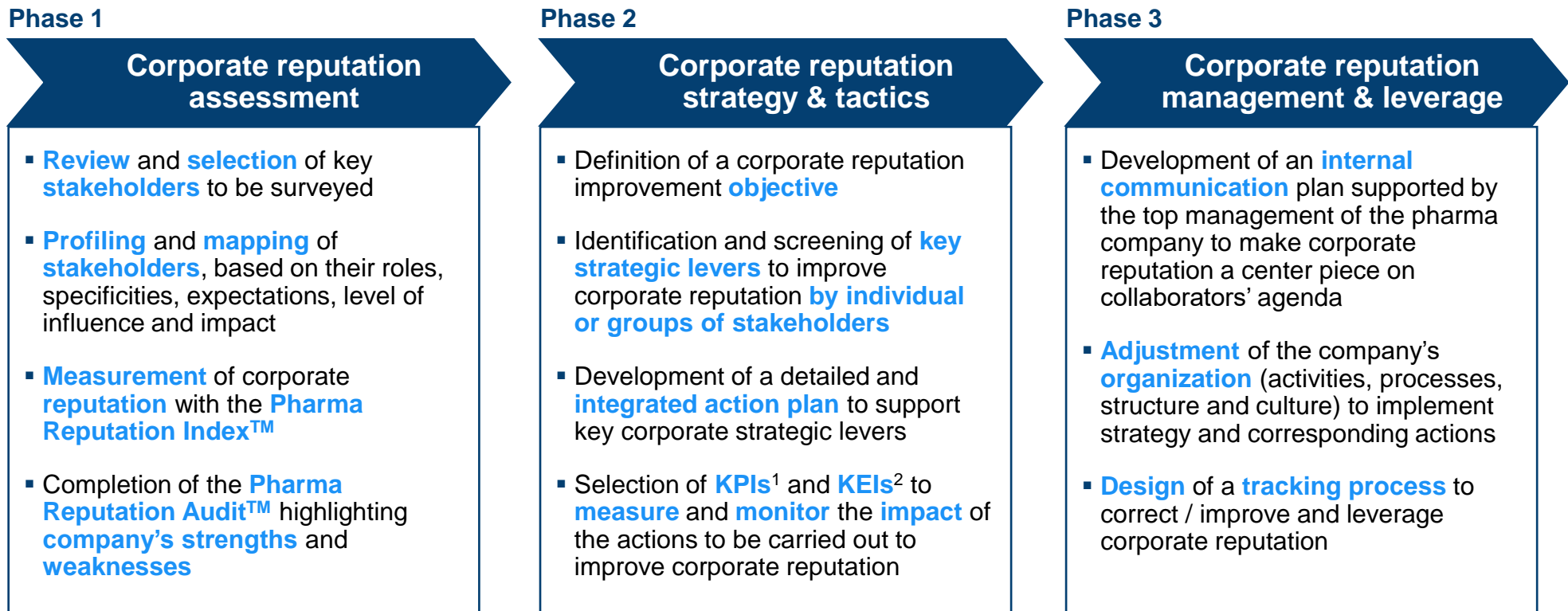
<sup>1</sup> Corporate Social Responsibility – <sup>2</sup> Politics, pressure groups including patient advocacy groups, activists, journalists,



Smart Pharma Consulting has developed a specific approach to leverage corporate reputation to create a sustainable competitive advantage

### “Pharma Corporate Reputation Booster™”

From diagnosis to strategy implementation

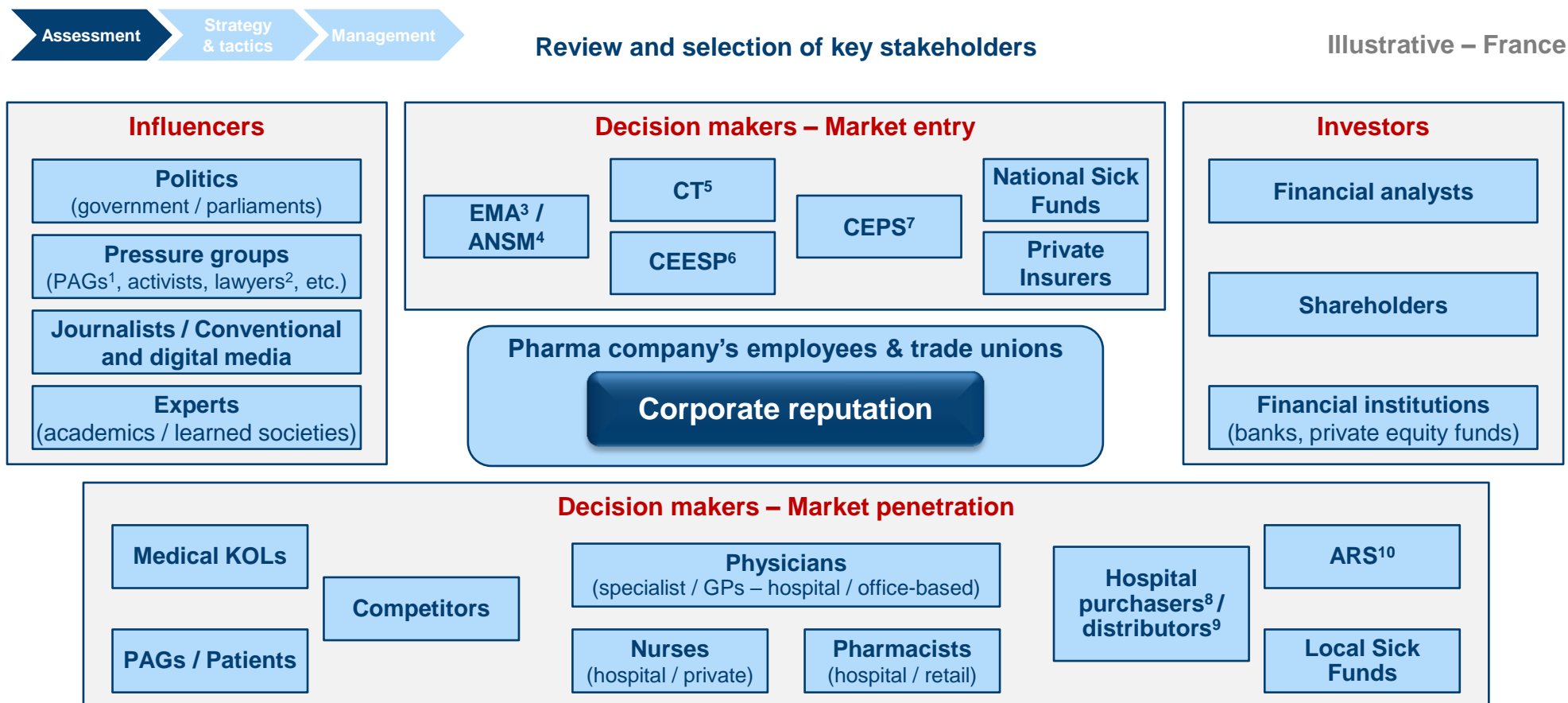


Source: Smart Pharma Consulting

<sup>1</sup> Key performance indicators – <sup>2</sup> key execution indicators

Pharma companies should review and select the most influential stakeholders on their corporate reputation, within the environment they operate

### Phase 1: Corporate reputation assessment

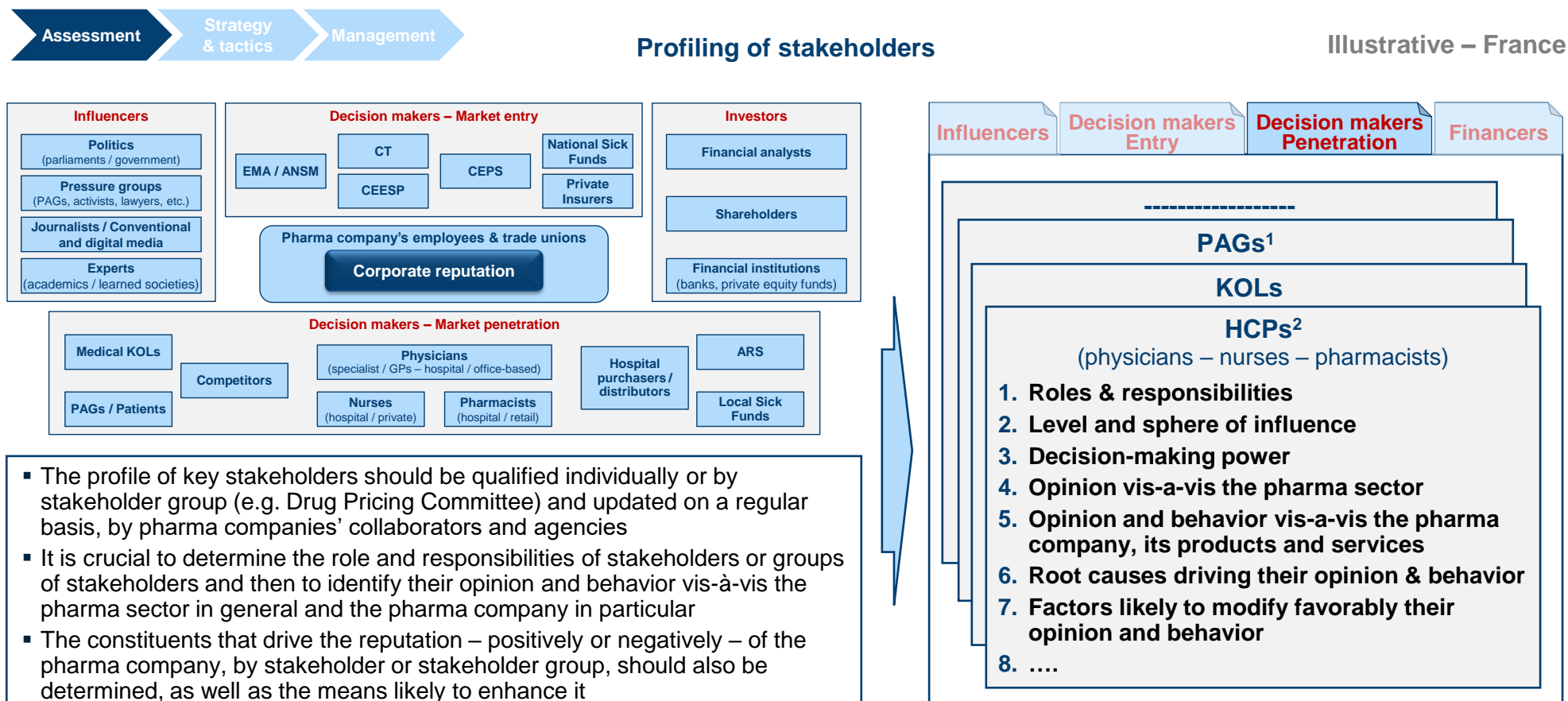


Source: Smart Pharma Consulting analyses

<sup>1</sup> Patient Advocacy Groups – <sup>2</sup> Specialized in class-action lawsuits – <sup>3</sup> European Medicines Agency – <sup>4</sup> French National Agency for Medicines and Health Products Safety – <sup>5</sup> Transparency Commission – <sup>6</sup> Health Economic Evaluation Committee – <sup>7</sup> Drug Pricing Committee – <sup>8</sup> Purchasing platforms, Territory Hospital Groups (GHT) – <sup>9</sup> Wholesalers, voluntary trade organizations, retail pharmacists – <sup>10</sup> Regional Health Agencies

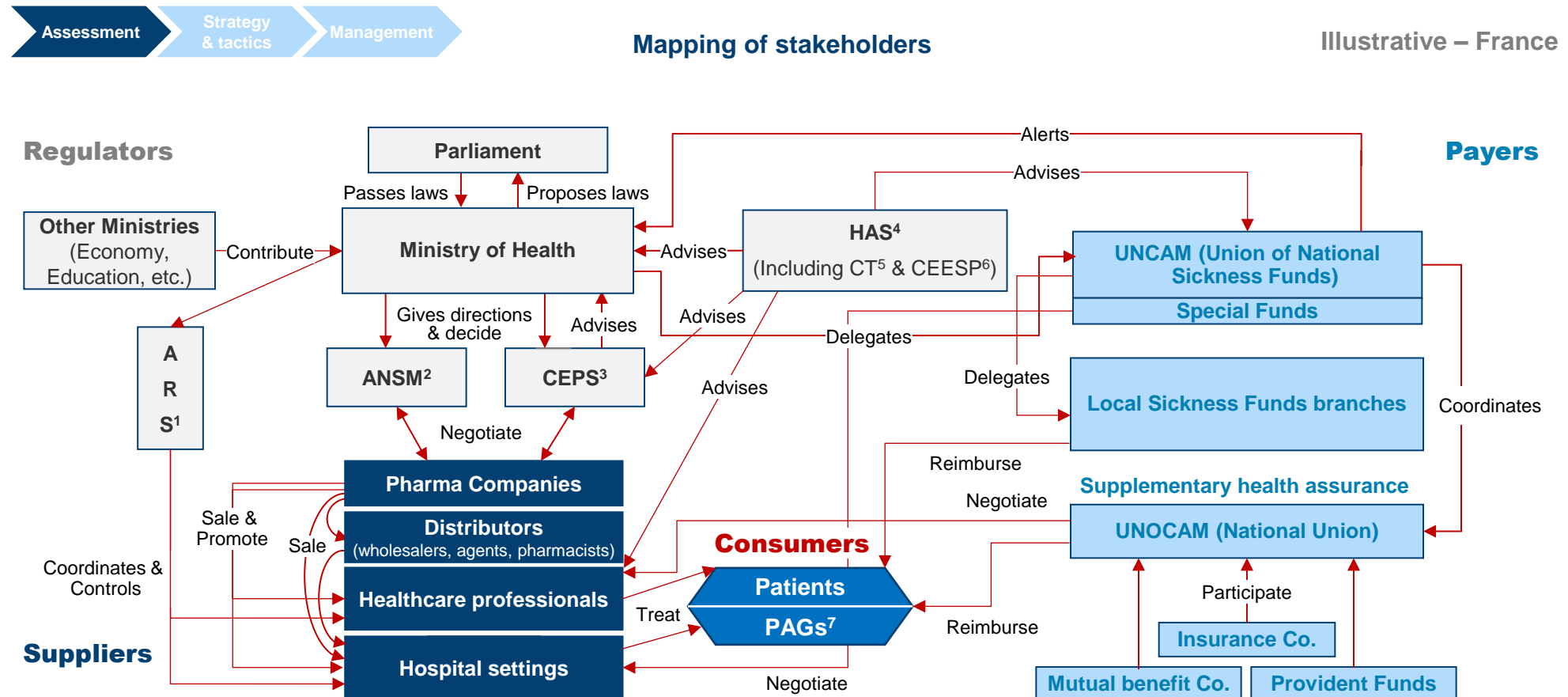
**Key stakeholders need to be carefully and precisely profiled, on an on-going basis, before any attempt to measure the reputation of the companies**

### Phase 1: Corporate reputation assessment



The influence of each stakeholder group should be well understood and then mapped, taking into account roles, responsibilities and spheres of influence

**Phase 1: Corporate reputation assessment**



Source: Smart Pharma Consulting analyses

<sup>1</sup> Regional health agencies – <sup>2</sup> French national agency for medicines and health products safety – <sup>3</sup> Drug pricing committee – <sup>4</sup> French national authority for health – <sup>5</sup> Transparency commission – <sup>6</sup> Health economic evaluation committee – <sup>7</sup> Patient Advocacy Groups

Corporate reputation depends on drivers that need to be measured by individual or groups of stakeholders with tools such as the Pharma Reputation Index™

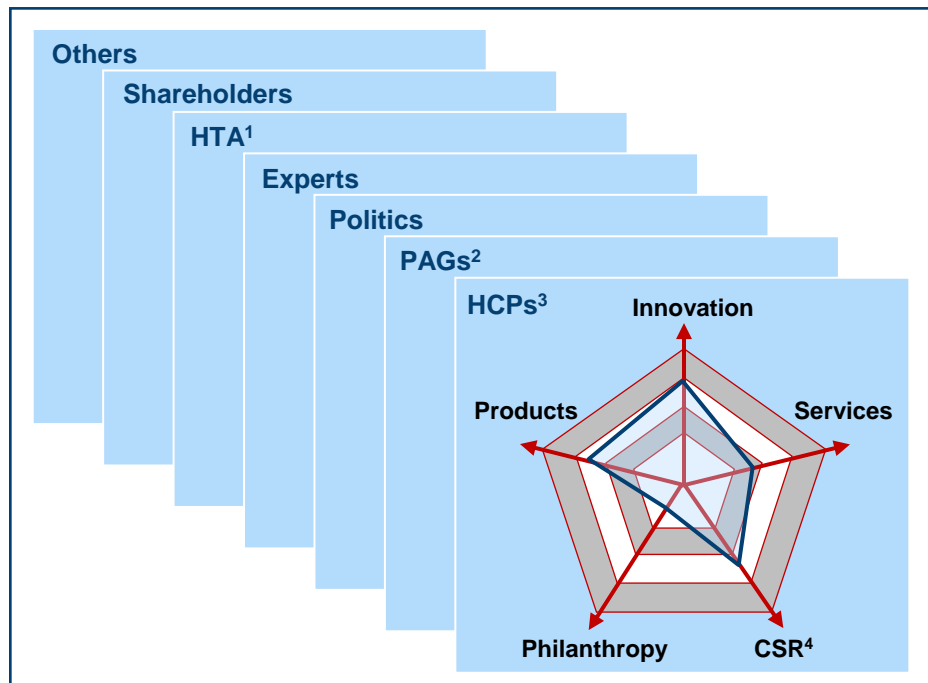
**Phase 1: Corporate reputation assessment**



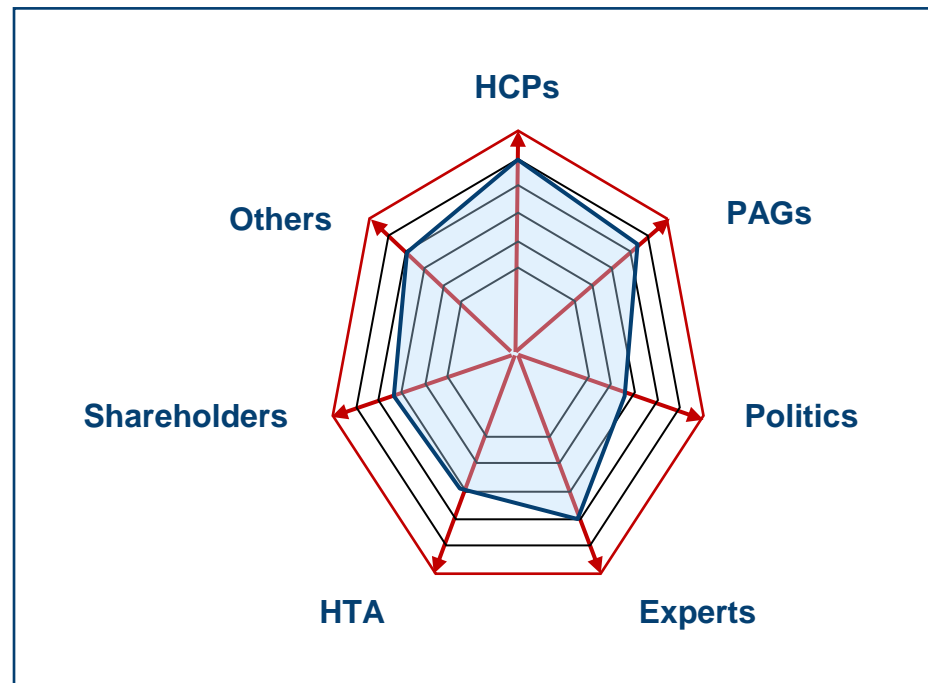
**Pharma Reputation Index™**  
Measurement of corporate reputation

Illustrative – France

Specific reputation drivers by stakeholder



Global reputation index by stakeholder group



Source: Smart Pharma Consulting analyses

<sup>1</sup> Health Technology Assessment (including: Transparency Commission, Economic and Public Health Assessment Committee) – <sup>2</sup> Patient Advocacy Groups – <sup>3</sup> Health Care Professionals – <sup>4</sup> Corporate Social Responsibility

The Pharma Reputation Audit™ developed by Smart Pharma Consulting facilitates the identification of key challenges to create superior corporate reputation

#### Phase 1: Corporate reputation assessment



Pharma Reputation Audit™  
Strengths & weaknesses highlight

Illustrative – France

Influencers	Decision makers Entry	Decision makers Penetration	Financers						
EMA <sup>1</sup> / ANSM <sup>2</sup>	CT <sup>3</sup>	CEESP <sup>4</sup>	CEPS <sup>5</sup>	National Sick Funds	Private Insurers				
Corporate reputation drivers per stakeholder group						Relative performance <sup>6</sup>			Corporate reputation challenges
Item	Description					Superior	Equal	Inferior	
1. R&D and innovation							✓		
1.1 Response to unmet medical needs							✓		
1.2 Robustness of clinical data								✓	
2. Services “around the pill”						✓			
3. Business & marketing ethics							✓		
4. Corporate Social Responsibility						✓			
5. -----						✓			

Source: Smart Pharma Consulting analyses

<sup>1</sup> European Medicines Agency – <sup>2</sup> French national agency for medicines and health products safety – <sup>3</sup> Transparency commission – <sup>4</sup> Health economic evaluation committee – <sup>5</sup> Drug pricing committee – <sup>6</sup> Vs. other pharma companies, including competitors or Vs. previous period

The Pharma Reputation Strategy Card™ can be filled up for one or several groups of stakeholders, from whom an improvement in reputation is expected

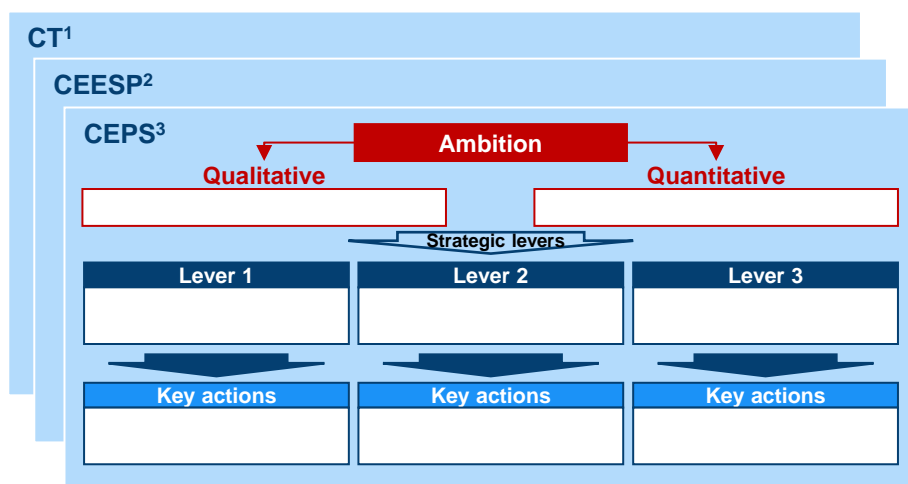
**Phase 2: Corporate reputation strategy & tactics**



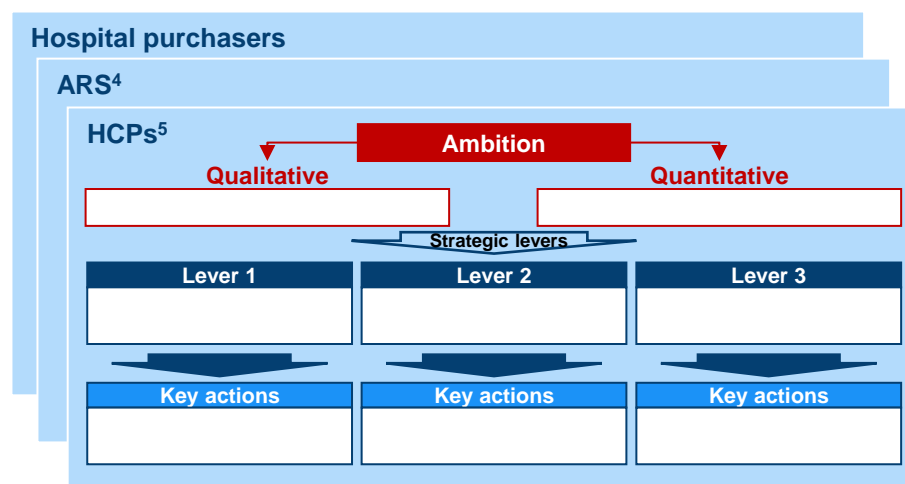
Pharma Reputation Strategy Card™

Illustrative – France

**Decision makers – Market entry**



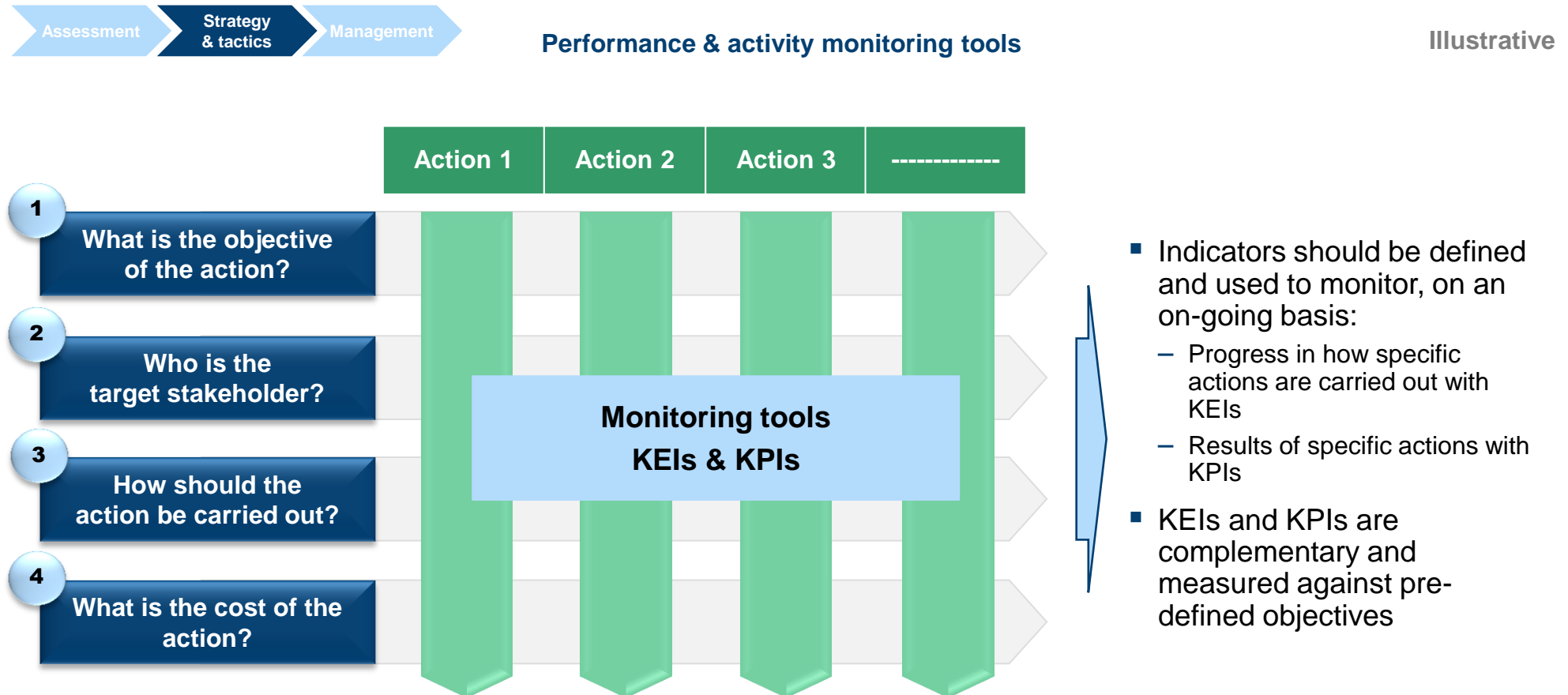
**Decision makers – Market penetration**



- Strategy and related actions aim at achieving the set ambition in terms of corporate reputation improvement
- The Pharma Reputation Strategy Card™ can be applied for one stakeholder group (i.e. CT, CEESP, CEPS, etc.) or for one individual stakeholder (i.e. the President of the CEPS)
- Strategic levers correspond to strengths on which the company should capitalize or weaknesses to be corrected to reinforce its competitive position

KEIs<sup>1</sup> are used to evaluate the quality of implementation of the actions likely to enhance the corporate reputation, while KPIs<sup>2</sup> measure the impact of these actions

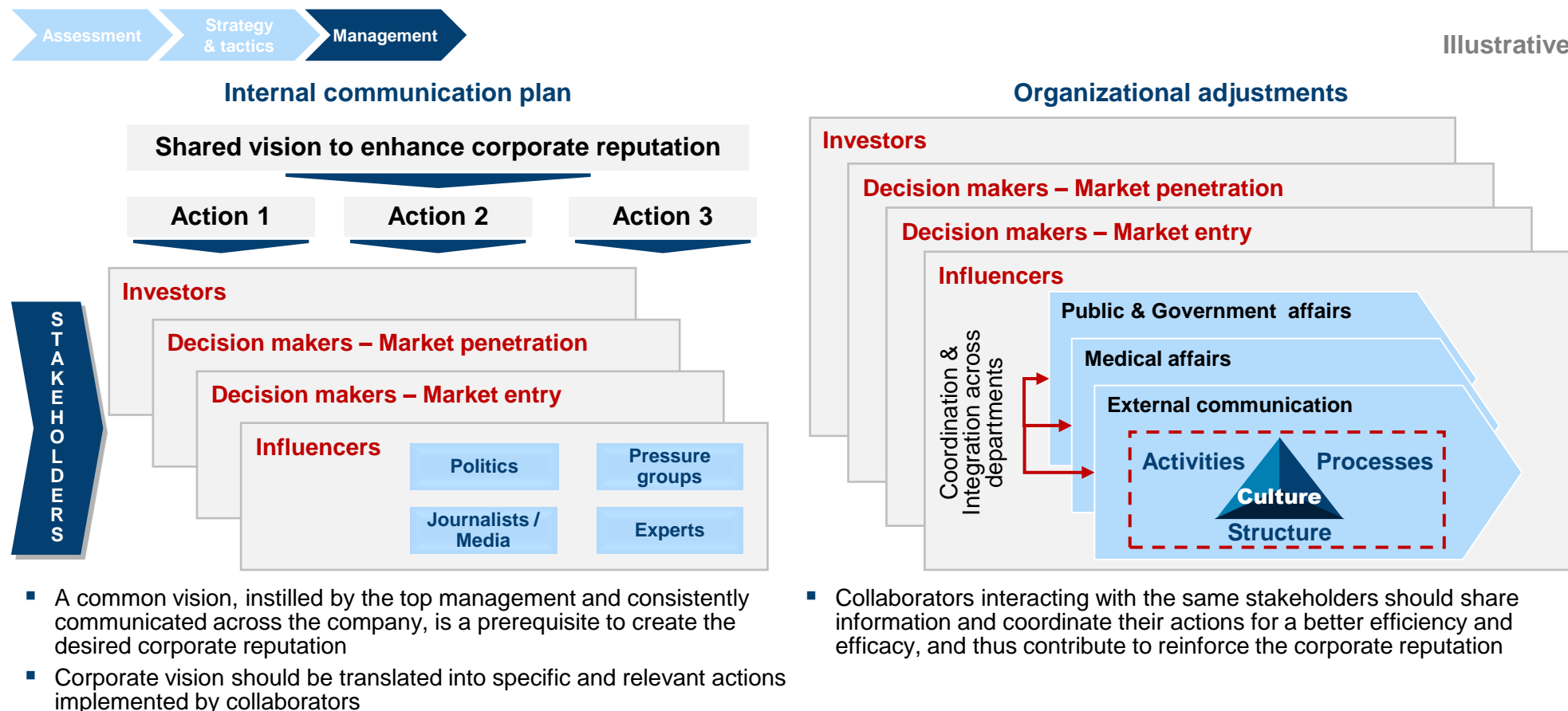
**Phase 2: Corporate reputation strategy & tactics**





The proper management of corporate reputation is conditioned by internal mobilization of collaborators and adjustment of the company's organization

**Phase 3: Corporate reputation management**



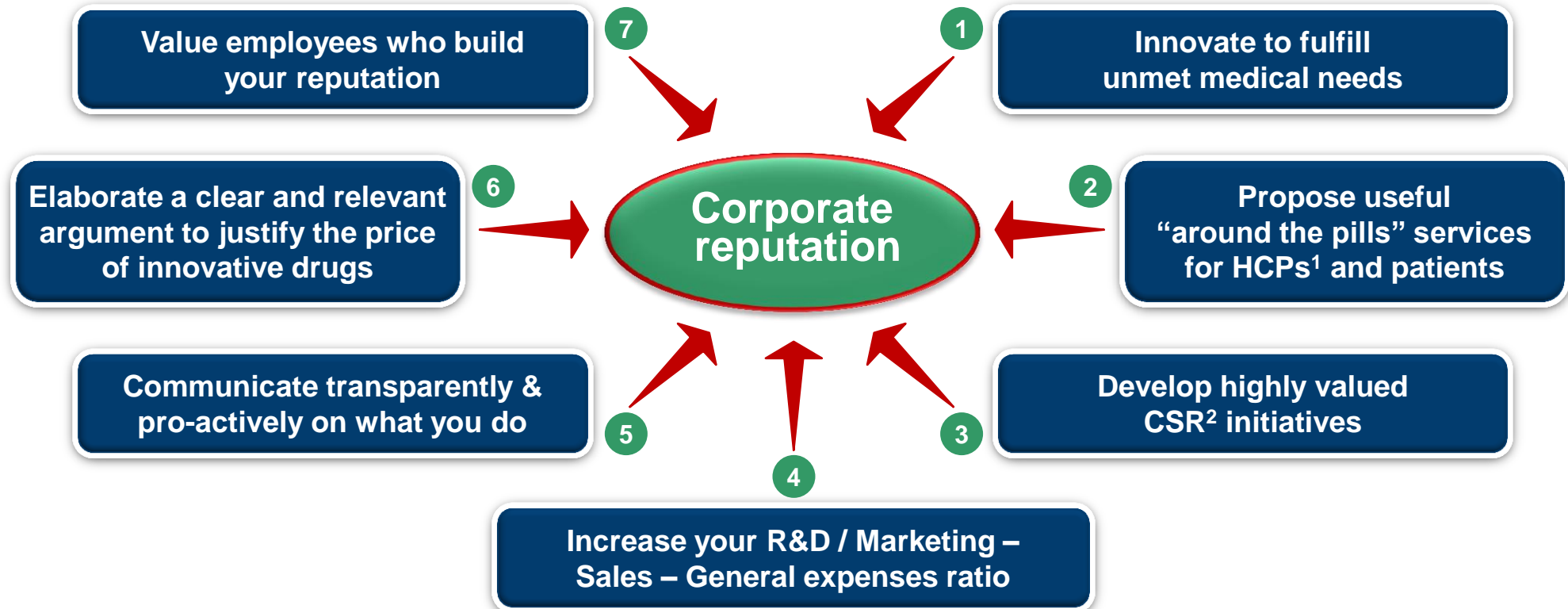
The corporate reputation management and its impact on the a company performance should be tracked with tools such as the Corporate Reputation Scorecard™

**Phase 3: Corporate reputation management**



Pharma companies must put customers (especially patients) in the center of their strategy and be as transparent as possible to get trusted and esteemed by stakeholders

**7 tips to improve the reputation of pharma companies**

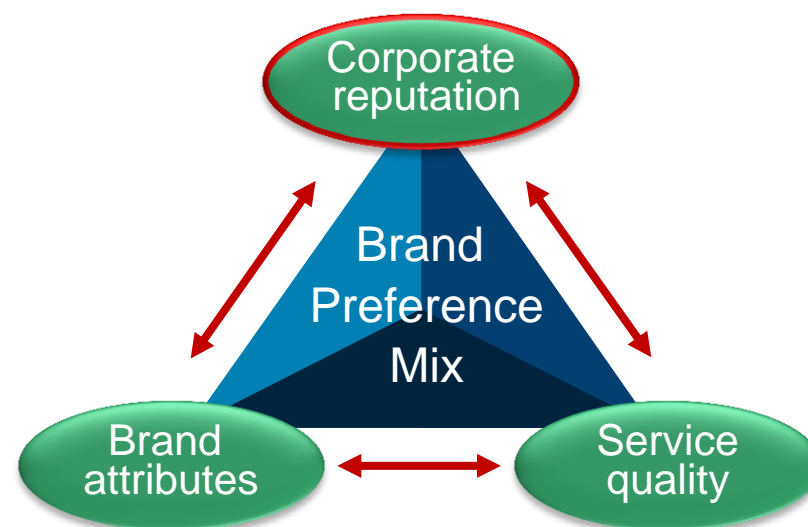


***“Don’t let anyone communicate on your behalf: tell yourself who you are and what you do”***

**With dwindling product differentiation, corporate reputation contributes to strengthen the preference of stakeholders (e.g. authorities, payers, HCPs, patients, investors)**

**Why superior corporate reputation creates competitive advantage?**

- Correlation between financial performance and corporate reputation has been clearly evidenced<sup>1</sup>
- A 5 point increase in reputation has shown to result in a 8.5% increase in stakeholders recommendations<sup>2</sup>
- A high corporate reputation, perceived as superior to that of competitors, will:
  - Lead to a more favorable position to negotiate with health authorities and payers resulting in better prices and earlier market entries
  - Strengthen the brand preference by HCPs, KOLs, PAGs, patients, etc., resulting in market share gains
- Companies' experience / expertise in certain therapeutic areas must be communicated with robust scientific support to enhance the perception of individual brands value by decision makers at market entry and penetration levels
- Strong positive reputation is built on credibility, reliability, responsibility, trust and transparency



***“A strong corporate reputation is characterized by trust and esteem, which generates stakeholders preference”***

**Smart Pharma Consulting know-how and methodology can help pharma companies strengthen their corporate reputation and use it as a competitive lever**

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**How can Smart Pharma Consulting boost your corporate reputation?**

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Smart Pharma Consulting can **support** pharma companies **throughout** all the phases that participate to **build a strong corporate reputation** and **transform** it into a **sustainable competitive advantage**:

- **Research and assessment** of **current** corporate **reputation** among stakeholders, at local, national or international level
- **Definition** of a realistic corporate reputation **enhancement objective** by group of stakeholders
- Development of an **appropriate strategy** and selection of the corresponding **actions** to achieve the target reputation
- Selection of the **KEIs**<sup>1</sup> and the **KPIs**<sup>2</sup> to **measure the gap** between the current and the target reputation
- Development of an **internal communication plan** and of a **management program** to create a stakeholder-focused company
- **Adjustment** of the company's **organization** (activities, processes, structure, culture) to efficiently **implement** the pre-set **strategy** and the corresponding **actions**, and to **leverage** the **benefits** of a positive corporate reputation
- **Design** of a **tracking process** to improve and leverage corporate reputation

***“Select two or three dimensions and strive to be recognized as a role model by stakeholders to differentiate your company from the other pharma companies”***

If you have ticked one “No box” or more, it means that there is a room to enhance your corporate reputation and differentiate yourself from other pharma companies

### Pharma superior corporate reputation self-assessment in 10 questions

Most of stakeholders (influencers – decision makers – Investors)<sup>1</sup> esteem ...

	YES*	NO*
1 ... Your high level of R&D investment and your effort to fulfill medical unmet needs	<input type="checkbox"/>	<input type="checkbox"/>
2 ... The quality of your product portfolio	<input type="checkbox"/>	<input type="checkbox"/>
3 ... The quality of services you propose to HCPs <sup>2</sup>	<input type="checkbox"/>	<input type="checkbox"/>
4 ... The quality of services you propose to patients (services “around the pill” for better results and quality of life)	<input type="checkbox"/>	<input type="checkbox"/>
5 ... Your involvement in “Corporate Social Responsibility” initiatives	<input type="checkbox"/>	<input type="checkbox"/>
6 ... Your philanthropic initiatives	<input type="checkbox"/>	<input type="checkbox"/>
7 ... The transparency of your corporate communication	<input type="checkbox"/>	<input type="checkbox"/>
8 ... The professionalism and the ethical behavior of you collaborators	<input type="checkbox"/>	<input type="checkbox"/>
9 ... The working atmosphere of your company, as testified by your employees	<input type="checkbox"/>	<input type="checkbox"/>
10 ... The good and sustainable financial performance of your company	<input type="checkbox"/>	<input type="checkbox"/>

\* If stakeholders do not know or if you do not know what do they think, in both cases tick the box NO

Consulting company dedicated to the pharmaceutical sector operating in the complementary domains of strategy, management and organization

## 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 courser



### 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**