Making the most of maturity

Mature products can contribute signficantly to the sales and profits of big pharma companies. Jean-Michel Peny proposes strategic options for maximising the return on established brands

Pharma remains an attractive sector for investment. Its 2002 sales had grown by 10% to US$430 billion and its operating profitability stabilised in the range of 30%. However, such healthy results should not obscure the difficulties it faces – increasing pressure from payers, parallel imports, competition from generics, challenges to patents and a shrinking pipeline of new active substances.

To sustain long-term sales and profits and outperform the market in this challenging environment, big pharma needs to bring a steady flow of blockbusters to market. However, according to Datamonitor, only 14 potential blockbusters are likely to reach market between 2003 and 2006.[1]

An alternative to the R&D route is to extend indications and improve drug delivery in order to make blockbusters of established brands. Pfizer, the number one pharmaceutical company worldwide, has ten blockbusters that account for 85% of its human pharmaceutical revenues of US$28.3 billion. Together, these products grew by 15% in 2002 compared with growth of only 12% for Pfizer's entire drug portfolio.

Aventis' growth is also driven by 15 strategic brands, including three blockbusters – Allegra/Telfast, Lovenox/Clexane and Taxotere – which together accounted for 56% of total prescription drug sales in 2002, an increase of 23% compared with 6% growth for its global prescription products. In other words, the remaining 44% of sales come from non-strategic brands whose peak sales are low (below US$150 million) and whose sales growth potential is below company average or even negative.

All the big pharma companies follow the same approach. To improve how they allocate marketing resources and manage the associated trade-offs, they segment their product portfolio into strategic or high-growth brands and non-strategic brands, or those whose growth is low or negative – the so-called 'mature products'.

Most big pharma companies have concentrated their marketing efforts on the high-growth brands to offset the declining sales of their mature products. However, Novartis has taken a different approach. The company has created a business unit dedicated to managing its mature products, which accounted for 40% of its prescription division in 2002. This business unit attempts to increase the value of brands at late stages of their lifecycle and, where appropriate, to extend the life of these products through innovative line extensions – that is, new improved formulations with additional patient benefits.

The company's management expects to improve how it manages products that are well established but declining or whose sales and profits potential are not strong enough to apply classic promotional investments. By pioneering low-cost marketing activities, ranging from e-marketing to the extensive use of external field forces, the mature products business unit maximises cash generation while at the same time ensuring a sharper strategic focus on older products.

Novartis has focused on marketing a few mature products. One of them, the anti-inflammatory Voltaren, continues to compete against generics and COX-2 inhibitors and achieved sales of US$600 million in 2002, reporting a 3% sales decrease at a constant exchange rate. The second key mature product, the antihypertensive Cibacen/Cibadrex, delivered a 9% increase in sales, mainly as a result of renewed external field-force support in the US. To these corporate priorities, affiliates can add local priorities. Thus, the French subsidiary of Novartis supports its calcium channel blocker, Loxen (nicardipine) with an external sales force.

Analysis of Novartis' performance in 2002 shows that mature products can significantly alter the sales and profits growth of pharma companies (see Figure 1 below). Indeed, falls in the sales of mature products have eradicated 54% of the sales and 20% of the profits generated by Novartis' strategic products. Optimising the performance of mature products seems worthwhile when they exceed 30% of a company's total sales, even though they might experience a double-digit decline. For instance, it could be valuable for AstraZeneca, which markets three strategic blockbusters and which, by

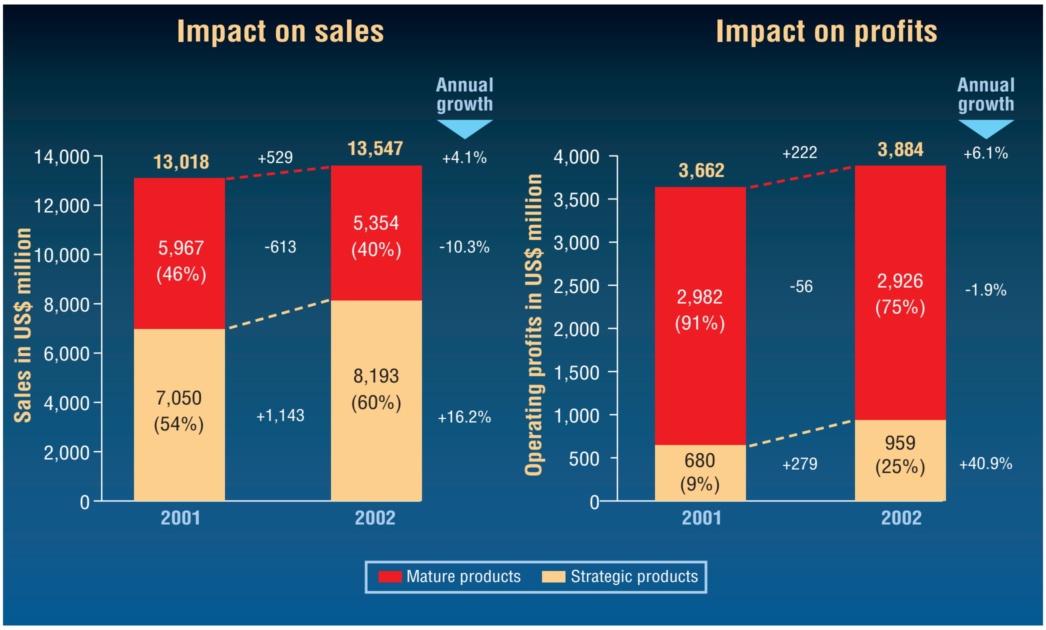

Figure 1: Impact of mature products on Novartis' pharmaceuticals division sales and profits growth in 2002. Source: Smart Pharma Consulting estimates and analysis from the Novartis annual report 2002.

	Small mature products	Mid size mature products	Big mature products
Definition*	Sales equal to or below US$3 million	Sales between US$3 million and US$10 million	Sales equal to or above US$10 million
Strategic orientation	Market withdrawal Product selling to a third party (difficulty in finding an acquisitor)	Product milking Product selling to a third party	Product milking Marketing investments to support the product
Rationale	Limited or no profits (low sales volumes, high manufacturing costs) Mobilisation of companies' resources (registration updating, PMS services and so on)	Limited contribution to profits Products that are sensitive to marketing investments are often too small to bring a significant profit increase	Products non-sensitive to marketing investments should be milked Products sensitive to marketing investments may generate significant profit increase
Action plan	Inform authorities, physicians and pharmacists one year before the date of product withdrawal Adopt an opportunistic approach regarding product selling	Stop marketing investments and product developments in case of milking Adopt a proactive approach to find an acquisitor if product selling has been decided	Stop marketing investments and product developments in case of milking Assess regulatory and competitive risks, and then the level of product sensitivity prior to any investments decision.

* The proposed definitions applied to the French open care market

Figure 2: Strategic management of mature products. Source: Smart Pharma Consulting.

2005, should have launched three more, to look closely at its mature products. Actually, AstraZeneca possesses a non-strategic blockbuster, Mopral/Losec, which achieved US$4,623 million sales in 2002 – 26% of the company's pharmaceutical sales – despite an 18% sales decrease induced by rising generics competition and the transfer of marketing resources to its patented isomer Nexium. If Zestril, Diprivan and Nolvadex are also taken into account, the cumulative sales of these four mature products rose to 36% of AstraZeneca's pharmaceutical sales in 2002. However, they also showed a global decline of 17% compared with 2001.

Corporate marketing should give the strategic impulse and direction of mature products but it should also favour the sharing of experience among affiliates. The affiliates' general management and marketing departments should be responsible for selecting eligible brands and deciding the tactical initiatives.

Portfolio segmentation at affiliate level appears to be more complex than at corporate level. A brand may be considered strategic at a corporate level and non-strategic at affiliate level, and vice-versa. Allegra/Telfast, Aventis' top-selling brand worldwide, for example, ranked number 35 in its French affiliate portfolio in 2002 with sales of just US$12 million. In contrast, its top three selling brands on the French open care market – Vasten, Doliprane and Orelox – are not considered globally strategic.

These differences between strategic brands at corporate and affiliate levels should disappear in the future. In fact, pharma companies like Pfizer, GlaxoSmithKline, Merck and AstraZeneca, having launched several major blockbusters over the past decade, show similar strategic product portfolio structures at corporate and local level.

Maturity is hard to manage

Mature products that are non-strategic at both corporate and affiliate levels may account for as much as 50% of company sales. These products are complex to manage and there may be a lot of them, especially in companies formed by successive mergers and acquisitions. Pfizer (including Pharmacia) and Aventis have respectively more than 100 and 150 mature products marketed in France. In addition, these brands may be very different in terms of their contribution to sales and profits and their sensitivity to promotion. Each brand requires a detailed analysis to estimate the possibility of value optimisation. This exercise should be carried out by each affiliate because mature product segments may differ from one country to another.

The first step in this analysis involves reviewing the contribution each mature brand makes to sales and profits. In France, the commercialisation of a brand with annual sales below or equal to US$3 million may be questionable, considering the associated costs, such as updating the registration files and maintaining post-marketing survey services. The manufacturing costs of these brands are also quite high because of the small volume produced. Almost 60% of the 166 brands marketed by Aventis in France generated annual sales below US$3 million in 2002 on the open care market. For Pfizer and GlaxoSmith-Kline the ratio was similar, while for Novartis it was higher (73%) and much lower (26%) for AstraZeneca.

The contribution of these small mature products to the total sales generated on the French open care market varies. It was only 1% for AstraZeneca and up to 9.5% for Novartis in 2002. For Pfizer, Aventis and GlaxoSmithKline, such brands ranged between 3% and 4%. Considering their low contribution in terms of sales and profits, these small mature products should be withdrawn from the market. Alternatively they could be sold, but finding a buyer is likely to be a difficult task because of their small profit potential (see Figure 2).

Irrespective of their sensitivity to promotional investments, mid-size mature products with annual sales of between US$3 and US$10 million should either be milked (profitability maximisation) or sold. This latter option was chosen by SmithKline Beecham (now GlaxoSmithKline), which sold Tagamet to Enteris in 2002, a small French company specialising in gastrointestinal products. Enteris was then acquired in 2001 by the Canadian company Axcan Pharma.

Some of these mid-range mature products may respond to promotion, but not to an extent that is likely to improve significantly the affiliates' overall performance. These products represent 4% of AstraZeneca and Pfizer's (excluding Pharmacia) French open care market sales and 14% of Novartis'.

The last category of mature products is those with annual sales equal to or above US$10 million. Among their top ten selling brands in 2002, Novartis and Aventis counted two mature products, AstraZeneca and Pfizer three, while GlaxoSmithKline had five. These brands deserve the most attention because of their high contribution to sales and profits; and the significant impact of any variation on the affiliates' global performance. Thus, with US$405 million sales in 2002, Mopral/Losec accounted for 41% of AstraZeneca's total sales on the French open care market. GlaxoSmithKline's top 12 big mature products accounted for 32% of the company's total sales. These big mature products generally produce large sales and profits, even if they rarely generate growth. Therefore, they should preferably not be sold or withdrawn from the market and managers should decide between milking or supporting them with promotion in an attempt to optimise their sales and profits.

Before dedicating marketing resources to mature products, the regulatory and competitive risks of doing so should be assessed, in particular the probability that these brands will face drastic price cuts or be withdrawn from reimbursement lists. The impact of generics competition and that from other established or new brands should also be considered.

Most mature products are exposed to generics competition. Irrespective of the measures introduced to limit it,[2] penetration of developed markets can be extremely fast and reach as much as 80% market share in a couple of months after patent expiry. In certain cases, off-patent mature products are immune from generic competition – Pyostacine from Aventis, for example – because there is no available source of the active ingredient or are partially genericised because certain formulations are still patented – Felden Dispersible, for instance. If these brands react to promotion, they may generate valuable additional sales and profits.

Once these regulatory and competitive risks have been analysed, and provided they are mild to moderate, the sensibility of each eligible big mature product to marketing investments, should be estimated, irrespective of its current sales evolution. The sales trend per se is not important, rather it is the magnitude of the positive change that can be induced by appropriate marketing investments that matters. Market studies have shown that when mature products respond to marketing initiatives – detailing, mailing, phoning, medical meetings and reminders – their impact is shorter than that of strategic products. Moreover, physicians who do not prescribe mature products that have been on the market for more than 15 years must have strong reasons for doing so, and therefore should not be targeted because they are unlikely to change their prescribing habits.

A question of influence

The challenge in promoting mature products is to be able to influence enough medium-high prescribers over time so that a positive impact can be measured at national level and on a yearly basis. Medium-to-high prescribers of mature products should be targeted and loyalty initiatives implemented. The purpose of calling on these physicians is mainly to remind them to keep on prescribing the mature products they appreciate, irrespective of competition from generics or other brand-name products. There is no need to produce a highly scientific detail, rather it should be attractive and concise. Repeated phoning and mailing used in combination produce better results on prescribing than one-off contacts. Unfortunately, e-detailing hasn't been very successful in influencing physicians' prescribing habits. It is complicated and, so far, interests only a very limited proportion of them. In certain cases a press campaign may provide good results, especially when a new dosage or formulation is introduced.

Bristol-Myers Squibb has opted for a radically different approach. Its French affiliate outsourced the management of its mature products to a CSO

The fewer medium-to-high prescribing doctors there are the more effective the impact of sales forces or direct marketing will be. If these targeted prescribers do not generate as much as 70% of total prescriptions, marketing investments are unlikely to deliver good results.

In France, two other affiliates of major pharmaceutical companies, namely Pfizer and Aventis, have already created local mature product business units. Their objective is to slow the erosion of their mature products sales or at least maintain sales trends, while maximising their margins in absolute terms. In addition, they want to test innovative promotional approaches or tools, with short-term payback, that could possibly be applied to their strategic products.

The organisation of these three entities differs. Aventis doesn't use sales teams to support its mature products, focusing mainly on direct marketing. Pfizer supports certain mature products with detailing, but through external sales forces only. Novartis may use internal sales forces if there is spare capacity as far as third detailing positions are concerned, or external multi-client sales forces.

Bristol-Myers Squibb has opted for a radically different approach. Its French affiliate outsourced the management of its mature products to the French contract sales organisation MBO in 2001 and 2002. The marketing and sales activities related to these products were implemented by Proxatis, MBO's nursing product division.[3] This type of deal is extremely rare because of the difficulties in agreeing the performance indicators that determine the fees.

Market, milk or sell?

Mature products deserve careful assessment at both corporate and affiliate level before a decision is made to keep marketing them, to milk or to sell them. Not all mature products respond significantly to marketing investments, or offer satisfactory return on investments. Actually, some brands have lost their promotional sensitivity over time. They may not be sufficiently well known, generics competition may be too strong or they may have become obsolete. Another reason for failing to produce results could be an inadequate level of marketing investments.

The importance of mature products on the global performance of several major pharma companies is such that they could be considered as a separate business division from strategic products, in the same way as OTCs, or generics. These four business segments have different objectives and profiles in terms of their contribution to pharma companies' overall performance. Mature products generate high levels of profit and low or falling profits growth, while OTCs show a lower profitability and low or indeed no growth. Generics also generate lower profits but generally show higher profit growth. For strategic products, profits are also low as a result of strong marketing investments, but their profit growth is high. Novartis, which operates in these four businesses, would probably have invested even more in its mature products if a cross-analysis of profit profiles had been integrated in the resource allocation process.

If strategic products play a key role in securing pharma companies' medium to long term growth and profitability, making the most of mature products is equally important to improving short-term growth in sales and profits. SM

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•Jean-Michel Peny is president of the strategy and management consulting firm, Smart Pharma Consulting, and a lecturer at the HEC and ESCP business schools and Paris University of Pharmaceutical Sciences in France.

