



When the Bubble **BURST**

Pharma is at a pivotal point in developing its sales and marketing strategy. Can it learn from past mistakes?

By Reid Paul, Editor-in-Chief



These days we know all about bubbles. The first decade of the twenty-first century was bracketed by speculative bubbles: Starting with the dotcoms and ending with the collapse of the financial system on the back of the burst housing market, it has been an era marked by irrational exuberance.

Lost to most observers was another bubble. In 1995 fewer than 40,000 sales representatives called on physicians across the United States. That number had been more or less stable for many years, but the late 90s saw a dramatic shift. Six years later there were 80,000 reps, and by 2004 there were approximately 100,000 reps as industry profits soared, blockbusters dominated and commissions poured in. Everything was looking up for the industry, until suddenly it wasn't.

Two years later, the industry was telling a different story. Pharma companies were shedding reps, not by the tens or the hundreds, but by the thousands.

What happened? The short answer is the patent cliff, increased regulation and decreased access, but there's more—much more—to the story than that. To understand how the industry got to this position, it is necessary to understand where it came from. Pharma is at a pivotal point in its history right now and much of it is the result of the sales strategies most companies have employed over the course of the last 10 to 15 years.

A Brief Walk Through the Past Forty Years

It wasn't always like this. Sales reps looked to pharmaceutical companies as places for career-long employment and opportunity. They spent ample time with physicians, forming friendships. It was a stable job in a stable industry. "The pharmaceutical rep was held in very high regard," says Jim Dutton, president emeritus of the Certified Medical Representative Institute and a former rep. "If you walked into an office you were welcomed with open arms."

In many respects the profession was still in its infancy when *Pharmaceutical Salesman* was first published in 1971. At that time, a movement started to really transform the place

of the pharmaceutical sales position from a job to a profession. The creation of CMR Institute and the Society of Pharmaceutical and Biotech Trainers all formed around that time with the aim of raising the level of professionalism among sales representatives and the associated managers and trainers. To the men—there were very few women at the time—this was more than an entry-level job; it was something they devoted their lives to. It was a position that required time and experience to master. There were issues to debate and approaches to examine.

Sales experience was seldom the top criteria when pharma companies recruited sales reps. Reps typically had a science background and in many cases were pharmacists. Others came in with a teaching background.

In short, the pharmaceutical sales representative was considered a professional. And, for most reps it was a career of choice.

Through the 1970s, 1980s and even into the 1990s, it was a relatively small and exclusive club. There were probably between 30 and 40 thousand reps at the time in the U.S. and not a lot more globally. To be sure, more women and minorities joined the ranks of the sales force, but overall the job changed relatively little.

Access Issues

Gaining access to physicians was rarely a problem, says Dutton. Managed care organizations were just getting started, and it was rare that a hospital or office would prevent access. Reps tended to work with physicians in their territory over a period of time and were seen as important sources of information on drugs when there were relatively few alternative sources for most doctors. "The relationship was revered," Dutton insists.

A 1980 survey of hospital administrators found that only 19 percent of teaching hospitals placed any restrictions on rep visits, usually limiting the visits to once per week. The survey also found that 15 percent of non-teaching hospitals limited reps to monthly visits. In most cases visits to doctors did require an appointment.

Some officials did question the marketing practices of pharmaceutical companies. Throughout the 1970s, Congressional hearings would question the validity and objectivity of sales reps. In April 1974 Senator Edward Kennedy (D-Mass.) called for the licensing of pharmaceutical sales reps by the federal government and the development of uniform standards for the profession. Less than a month later, the Pharmaceutical Manufacturers Association (now PhRMA) recommended that its members adopt a voluntary code of ethical standards and accreditation of sales force training programs.

The Boom Years

If things remained relatively stable through the 1970s and 1980s, it was quickly apparent that the 1990s put pharma in a brave new world. Access to better physician level data, gave pharma companies new tools for analyzing marketing strategies. So, too, did the beginning of direct-to-consumer advertising. Then, finally, the emergence of truly blockbuster drugs provided new opportunities for pharmaceutical companies to flex their sales and marketing muscles. By the end of the decade, stocks were rising, sales departments had more than doubled the size of their sales force and companies were reaping profits like never before. It seemed like the good times were never going to end.

Access to better data was an important change for reps and sales management. Before that, pharma companies only had access to zip code-level data and the sales call, was more of an art than a science. With better data, pharma companies could suddenly pinpoint specific changes in prescribing practices and how marketing messages (and specific reps) were performing.

Perhaps not coincidentally, this new data also coincided with the emergence of new drug classes that offered more effective treatments, or in some cases opened up options for previously ignored and untreated diseases and conditions. Drugs like Prozac (1987), Prilosec (1989), Claritin (1993), Viagra (1998) not only redefined the meaning of blockbuster for pharma companies they gave doctors far more effective solutions. Proton pump inhibitors and statins, especially, not only required a sales force to get the word out, but also an educational campaign to inform doctors how to diagnose the disease state and identify appropriate patients.

New Sales Strategies

Growing sales brought on larger field forces, or was it the other way around? Whether it was cause or effect, one thing is clear: During the 1990s, the number of sales reps in the United States grew. And grew. And grew. By the end of the decade, there were more than 70,000 reps in the United States, and even as the world economy dipped into recess-

sion that number continued to grow.

The sales forces ballooned, in part, because pharma companies were beginning to understand how to perfect their craft. If a doctor heard a message once, it was unlikely to impact his or her prescribing. But when that same doctor heard the message, two, three, or four times, prescribing grew. “Pharma companies started to understand the relative sales call sensitivity of their products,” says Steve Rauschkolb, Managing Partner of the Crisfield Group. Companies mirrored territories, offered “me too” drugs with relatively little differentiation to compete in new drug classes and ramped up sales forces rapidly; pharma companies were competing in new and different markets that were expanding rapidly.

The rapid rise in the number of reps, placed stresses on the entire system. In many cases this caused, training programs to be cut short and class sizes to expand. Less importance was placed on a scientific background in favor of a greater focus on sales skills. “I can remember thinking during that

time that the number one focus was on the urgency of getting new sales reps out in the field instead of being thorough and making sure they are 100% prepared,” recalls Rauschkolb.

The more reps that visited a doctor and repeated the detail message the more prescriptions came in. Repeated visits by multiple reps meant even greater sales. Doctors didn’t want to admit it, but the data clearly indicated that the tactic worked.

To ensure they hit every doctor multiple times, pharma companies continued to hire

reps. The 75,000 reps in 2000 grew to 90,000 two years later before topping off around 100,000 in 2006. Success masked the true impact of the rising sales force.

Cracks in the System

Although few observers recognized it at the time, the balloon was ready to burst. The more successful pharma marketing became, the more problems that emerged. As the number of reps increased, so too did the complaints from doctors. Suddenly, feeling overwhelmed by the number of reps they were seeing, many doctors began to restrict access. Some cut off access completely, while others limited the amount of time they were willing to spend with reps, sometimes to less than a minute.

Some of pharma’s problems were self-inflicted. As competition heated up, so did the tactics for some companies. Last year, Pfizer was hit with a \$2.3 billion fine for illegal marketing practices for Bextra. And Pfizer was not alone. Eli Lilly was fined \$1.4 billion for its off-label marketing of Zyprexa and AstraZeneca coughed up \$515 million for Seroquel marketing practices. Few (if any) pharma companies came through the period unscathed.

The Pharmacy Connection

Who were these reps? They were sales people, but they were often pharmacists as well, with detailed understanding of the drugs they represented. Sure these reps had detail messages, but they often knew their physician clients personally.

Groups like the American Society of Hospital Pharmacists actively recruited sales reps to join the organization. “Through membership in the society,” ASHP membership service director David Almquist told *Pharmaceutical Salesman* in April 1973, “drug salesmen may be able to identify more closely with pharmacists.” Far from restricting access, ASHP was trying to broaden pharmacists’ access to sales reps.

Lawsuits began to take a toll as well. In a 2004 *Pharmaceutical Executive* interview, Marc Scheineson, a lawyer and former FDA associate commissioner urged pharma companies to fight the growing spate of consumer lawsuits in court. The results have been mixed, the suits tended to bring greater scrutiny to industry marketing practices, not to mention million-dollar judgments. "Some companies will pay nominal sums, sometimes making the evaluation that an aggressive marketing campaign is more valuable than what the [lawsuit] settlement might cost," Scheineson argued.

What Scheineson failed to account for was the increased attention from regulatory agencies. While the Food and Drug Administration has not made a serious effort to regulate pharma marketing practices, a number of states have already taken aggressive steps to reign in industry practices (See "Lunch is Served," April 2010, p. 14). Minnesota, Vermont, Maine and Massachusetts were at the forefront—but hardly alone—at adopting new policies that limited marketing spending.

The Bubble Bursts

The rest, you probably know. By 2006, it was fairly clear that the marketing model was broken. What had worked so well before was seeing diminishing returns. Blockbusters were going off patent, generic competition was increasing and gaining larger marketshare. Even opportunities like the 2003 Medicare Modernization Act, which expanded pre-

scription insurance to millions of elderly, could do little to halt pharma's slide.

The first sign of the coming crisis came as company saw an impending patent cliff. The blockbusters of the previous decade were quickly aging, with rapidly declining profits. Follow-on products were cutting into profit margins and companies seemed to have no answer to generic competition once the patent expired.

It would be a mistake, however, to attribute the fall solely to patent expirations. In fact, diminishing access to physician offices was probably the most direct indication that the prevailing pharma marketing model was broken. After years of increasing time spent with sales reps, doctors were reacting by limiting the amount of time spent with physicians. Physician organizations were also increasingly voicing concern over the marketing practices of pharmaceutical, biotech and device companies.

In 2007, PhRMA felt the need to defend the industry from such vocal opponents. Amid rising calls to curtail industry marketing practices the organization released a statement defending drug marketing in general and reps in particular. "Clearly, today's meetings between sales representatives and doctors do not hinder the ability of physicians to make independent judgments," said PhRMA senior vice president Ken Johnson. "But because it is important health professionals receive the crucial technical drug data companies can provide, PhRMA members are interested in learning about



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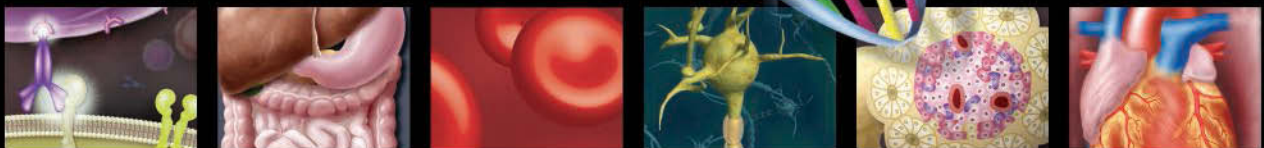
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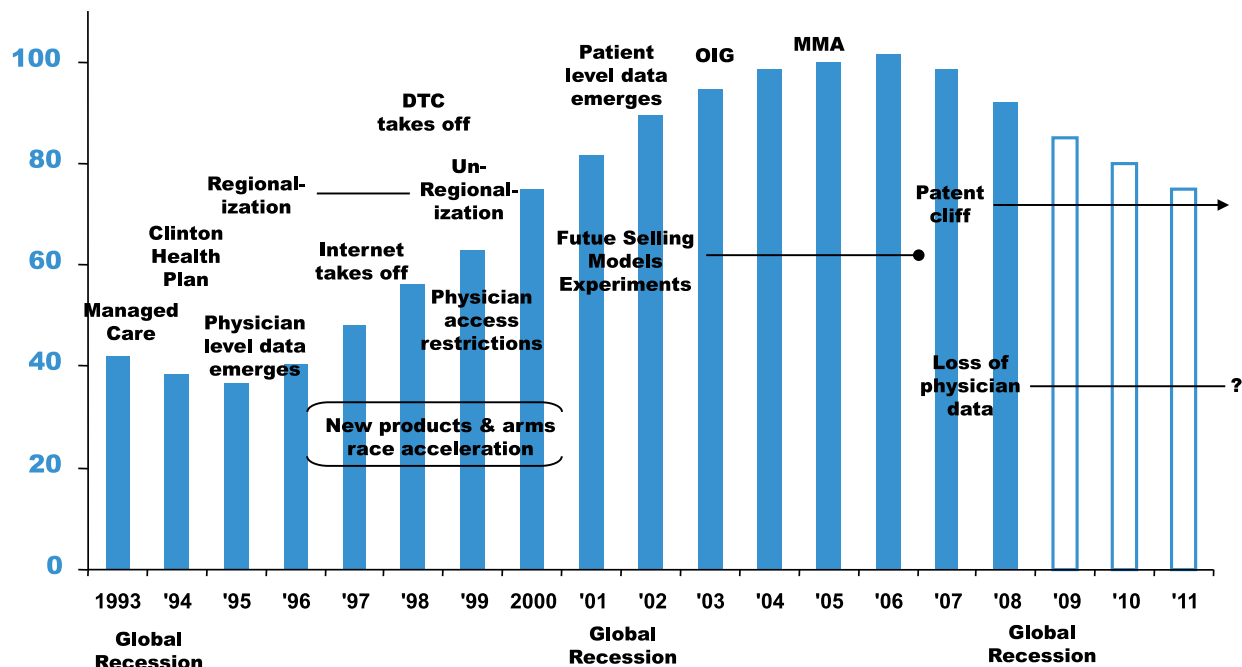
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Source: SDI/Verispan, ZS Associates analysis

other ways of providing the latest scientific information about medicines researched and developed by biopharmaceutical companies. PhRMA does not think that the answers lie in medical schools, hospitals and clinics that restrict the access of pharmaceutical sales representatives as this could limit—or cut off altogether—vital information about the benefits and risks of new medicines.”

But by all accounts the damage was done. In 2007 the number of drug reps fell for the first time in 13 years. Faced with aging products, limited access and falling profits, pharma companies reacted by making cuts to their sales force. The bubble had burst—and reps were the first to feel the pinch.

The New Reality

The initial round of cuts was perhaps the most jarring for pharma sales organizations. After years of unprecedented growth, few expected or were prepared for the cuts that followed. In 2007 AstraZeneca, Bayer, Johnson & Johnson and GlaxoSmithKline all cut more than 5,000 positions, while Pfizer cut an amazing 10,000 jobs. A year later it was Merck, Schering-Plough and Wyeth that led the pack with cuts of more than 5,000. And so the cuts continue: Last year, six companies laid off at least 5,000 employees. Pfizer once again led the pack with nearly 20,000 pink slips announced. Increasingly, the cuts are more focused and strategic, but no less painful for the recipient.

Early on sales reps were on the front line and received the lion's share of the pain. Still, as the cuts continued, there were few jobs that were considered safe in the pharmaceutical industry. Research & development, training, middle

management and sales all grew during the good times and were ripe for pruning.

It wasn't just the big companies either. “There's a lot more shrinkage left,” admits Rauschkolb. “There isn't a week goes by that you don't hear about [layoffs at] even medium and small companies. They are facing the same problems but on a much smaller scale.”

The mindset is shifting as well. Few reps have the same attitude towards their employers as their parents generation. “We will never see the time again when you get out of college and work somewhere for thirty years,” says Dutton. “It is safe to say that you can plan to make a career out of the industry, if not a company.”

The changes, Dutton and Rauschkolb both repeat, are probably for the best. The industry is returning to the concept of a highly-trained, informed sales rep. The rep of the future will be well versed in the science as well as rule and regulations. “Training is not in the basement anymore,” adds Dutton. “Pharma companies have the best facilitates and best people in training.”

Of course, much still depends on how successful sales reps can be in winning over not only state and federal regulators, but also physicians. To gain back access, reps will have to prove their worth. “The products of today are so much more sophisticated,” argues Dutton, “It's all part of the evolution of what the rep will become and how they will disseminate information. That's where the value of the rep is today.”

Did you survive the great pharma sales bubble? Join the Pharm Rep Community on Facebook and share your experiences.