



Continuing Education



Marketing basics

Learning Objectives

Describe the evolution of pharmaceutical marketing.

Describe the “four P’s” of marketing.

Summarize the product life cycle of pharmaceutical products.

Describe various types of market research used by pharmaceutical companies.

Describe the roles of key marketing personnel.

This first article in a three-part series discusses basic aspects of marketing, including: the evolution of pharmaceutical marketing, the “four P’s” of marketing, marketing over the product life cycle, market research and the roles of the marketing staff.

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The modern pharmaceutical marketplace emerged during World War II, when the need to manufacture drugs on a large scale spurred the development of new drug research and new technology to increase production. During the postwar period, favorable developments involving patent law, prescription rules and other regulations encouraged competition and growth. In addition, firms developed or acquired the infrastructure necessary for distributing and selling their products directly to the private sector.

By the 1960s, research and development remained a driving force behind sales growth, and marketing had become an important factor as well. Making personal calls on physicians for sales purposes had emerged as a particularly important technique.

Regulatory changes in the 1970s created a more competitive environment in terms of pharmaceutical pricing. Generic substitution rules changed such that pharmacists were permitted to substitute generic products for brand-name drugs unless the prescribing physician specifically forbade the switch. In addition, restrictions on price advertising by retail drug stores were lifted. These changes resulted in decreased revenue from older drugs.

Group purchasing organizations (GPOs) also shaped the competitive environment in the 1970s. GPOs are groups of healthcare providers who purchase drugs together in large volume. This enables providers to negotiate a more favorable purchase price than if they were purchasing individually.

During the late 1970s and early 1980s, pharmaceutical companies began to produce the first “blockbuster” drugs with annual sales of \$750 million or more. Public perception of superiority was important in building sales of these drugs, and marketing strategies were designed to support this perception. Alliances were particularly important for promoting these drugs.

During the 1980s, federal programs were initiated to control medical expenditures. For example, Medicare implemented a payment system in 1983 based on diagnosis-related groups. In this system, treatments are categorized and assigned a set reimbursement amount for hospitals, regardless of the actual amount spent treating the patient.

Strategic alliances have persisted through the 1990s and into the 21st century. By offering capital resources and an established marketing, communication and sales mechanism, larger firms have been

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able to create marketing alliances with smaller entrepreneurial companies. Another significant development during the 1990s was the widespread use of direct-to-consumer advertising by larger pharmaceutical companies.

The four P's of marketing

Marketing professionals often refer to the “four P's” of marketing – product, place, price and promotion. The concept of the four P's is a classic marketing model used to describe the factors that influence consumer buying decisions.

Product. Product refers to the item being sold in the marketplace. Key aspects include brand name, features and benefits. Note that of the four P's, product is at the top of the list. Marketing efforts are wasted on a product the market does not want; therefore, a company must define its target market and assess the market's needs before introducing a new product.

Place. Place refers to the means of contact between buyer and seller; it may also be referred to as distribution. Distribution is important because a product must be available where and when the customer wants it. Marketers of pharmaceutical products are in an unusual position because in many cases, their customers (physicians and pharmacists) are gatekeepers for the end-users (patients). Thus, marketers often must focus not on the needs of the product users themselves, but on their needs as perceived by the physician gatekeepers.

Price. Sensible attention to market research can aid a company in ensuring that its price is the optimal one for its product. Clear analysis of data is the key to setting proper prices for pharmaceutical products, and ideally, pricing is part of a cohesive marketing strategy. A marketing department is expected to analyze four key components when recommending a price for a product: costs, competition, customers and government policies.

Promotion. This refers to the link between the product and the marketplace. Communication activities such as advertising and sales presentations are meant to catch the attention of prospective purchasers and influence them to purchase the product. A marketing plan sets down in writing the market analysis, market objectives and marketing strategy for a given product. The plan includes decisions about product branding, positioning and packaging.

Product life cycle

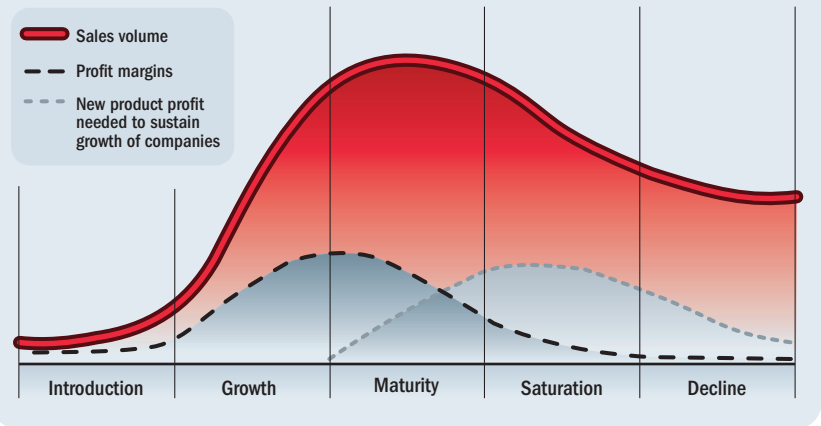
Pharmaceutical products tend to have a life cycle that consists of five stages: introduction, growth, maturity, saturation and decline. Marketing strategies will differ for each phase.

Introduction. In this initial phase, the marketing department must coordinate and launch a comprehensive marketing campaign to stimulate demand. Sales presentations are particularly important because most physicians must be convinced the product will

Figure 1

Marketing life cycle of pharmaceutical products

After a product has been on the market for several years, profit margins decrease. New products must then be introduced to the market because their profits are needed to sustain company growth.



benefit their patients before they will change their prescribing habits.

Growth. During this phase, prescriptions increase, as well as the number of competing products. The marketing department develops communication efforts that focus on the advantages of the brand over competitive brands.

Maturity. In this phase, competition reaches its peak, as all the companies seeking market share have entered the market. Total sales increase, but at a lower rate. Marketing to physicians and pharmacists begins to show declining benefits. Consequently, firms begin to rely less on sales representatives and more on direct mail and journal advertising.

Saturation. This phase occurs when physicians have used a product for all feasible indications and it is considered a valid therapeutic resource. New sales are largely determined by population and disease incidence rather than marketing efforts. Marketing efforts may center on new dosage forms, long-acting forms and forms with different release mechanisms.

Decline. The decline of a pharmaceutical product is usually caused by the development of new, more effective therapeutic agents. The introduction of generic products may hasten a product's decline. During this final phase, when profits are slim, communication efforts may be aimed at a core of physician users or may be abandoned altogether.

A successful pharmaceutical company has a variety of products at different phases of the life cycle, so that as one product is declining, another is experiencing growth. When a successful product has reached a plateau and generic competition looms, the marketing department may respond with new and improved versions of the product.

Market research

Market research is an important tool used to glean information about potential customers and marketplace factors. Two main categories of market research are secondary research and primary research.

Secondary research. Also known as “desk research,” secondary research is faster and less expensive to perform than primary research and should be performed first. Secondary research consists of reading information that has already been collected for some other purpose. Sources include company information, such as internal documents and databases, and published sources, such as pharmaceutical industry trade bulletins and technical journals. Data may also be obtained through commercial suppliers (for example, Fairfield, CT-based IMS Health or Atlanta-based NDCHealth). If data collected through secondary research are inadequate,

a primary research study may be commissioned.

Primary research. Primary research is also known as “original” or “survey research.” Primary research data are collected by commissioning new research studies. Types of primary research include observational, survey and experimental.

- Observational research is conducted by observing relevant people, actions and situations. It can reveal actual customer behavior, which may differ from stated behavior. However, it cannot provide information about the customer’s attitudes or motivations, nor can it document private behavior or long-term behaviors.

- Survey research allows researchers to gather information about internal factors that influence customer purchase decisions, such as attitudes, preferences and knowledge. It is the most commonly used primary data collection method. Common problems with this method include unwillingness to answer the survey and inaccurate or untruthful answers.

- Experimental research is used to explain cause-and-effect relationships. This involves selecting subjects, exposing them to an experimental variable, controlling unrelated factors and checking for differences in responses. Experimental research is the most scientifically valid type of research, but experiments must be carefully designed.

Primary research can also be categorized as qualitative or quantitative. Qualitative research is often used in the early stages of research to discover customer desires, attitudes and behavior. It does not produce hard numbers. In contrast, quantitative research is often used in later stages of research to quantify specific pieces of information, such as market size, market share and trends. It produces data in the form of hard numbers or percentages.

Market research has a wide variety of applications, including:

- Market segmentation – dividing the market into consumer groups viewed as having similar needs.
- Market analysis – determining the market potential and opportunities that exist within the market.
- Image research – examining the public’s image of particular products and of the company as a whole.
- Marketing assessments – evaluating marketing efforts.

Marketing staff

Marketing personnel may be involved in a diverse range of activities. The following are discussions of typical marketing positions.

Marketing managers. Marketing managers develop overall strategies based on probable marketplace needs and likely competitive developments. Successful marketing managers will possess sales experience as well as long-term strategic planning skills.

Product managers. These professionals develop and implement a marketing strategy and a complete marketing program for a specific product or group of products. Their focus is on building market share

Article Summary

- The modern pharmaceutical marketplace emerged during World War II, when the need to manufacture drugs on a large scale spurred the development of new drug research and new technology to increase production.
 - During the postwar period, favorable developments encouraged competition and growth.
 - By the 1960s, research and development and marketing had become more important.
 - The 1970s brought regulatory changes, decreased restrictions on advertising, group purchasing organizations and blockbuster drugs.
 - During the 1980s, federal programs were initiated to control medical expenditures.
 - Significant developments during the 1990s included strategic alliances and direct-to-consumer advertising.
- The four P’s of marketing are product, place, price and promotion.
- Pharmaceutical products have a life cycle that consists of five stages: introduction, growth, maturity, saturation and decline.
 - Marketing strategies will differ for each phase.
- Two main categories of market research are secondary research and primary research.
 - Types of primary research include observational, survey and experimental.
 - Primary research can be categorized as qualitative or quantitative.
- Marketing departments comprise many types of personnel, who may be involved in a diverse range of activities.

and consumer loyalty.

Market research managers. Market research managers coordinate the company’s market research activities. Their responsibilities include defining problems, identifying the information needed to resolve them, designing research projects, preparing questionnaires, analyzing data, preparing reports, and presenting findings and recommendations to upper management.

Other positions. Other marketing positions stress different sets of skills. For example, some staff members are involved in producing sales support materials (such as product literature, advertising or sales aids). These staff members must be capable of working with staff from medical, regulatory, legal and other groups to ensure that all marketing materials are medically accurate and comply with regulatory guidelines.

The marketing department should be committed to maintaining a flexible learning environment that can keep pace with constantly changing markets. One of the tools used for this purpose is a mental model, defined as a set of beliefs and assumptions that shapes perceptions and behavior. In a learning organization, it is important to continually reassess mental models that shape the organization’s actions to make sure they are still congruent with marketplace reality.

The learning environment also employs the concept of systems thinking – a framework for analyzing complex situations by focusing on inter-relationships and patterns of change. Using systems thinking, it is possible to figure out how a small, well-focused – and perhaps not intuitively obvious – action can produce significant, lasting improvement in a situation. This kind of action is known as leverage. In order to make high-leverage changes, one must see underlying “structures” rather than “events” as a starting point and think in terms of how to improve the situation in the long run rather than the short run.

The next article in the series will focus on marketing approaches and regulations.