

IMPLEMENTATION OF RIGHT CRM STRATEGY FOR PHARMACEUTICAL INDUSTRY

Prasanta K. Padhy*
Suresh Patnaik**

RESEARCH literatures have revealed that customer contact management helps in assessing relevant information about customers, and further benefits development of appropriate marketing strategy for organisations. An organisation can keep building the relationship and adding value to customer service encounters without investing as much time and energy as it used to be the practice in traditional marketing of pharmaceutical products. Indian pharmaceutical marketing remains a very dynamic & challenging game plan for all the 250 or more organised Indian & MNC players in a market size of US \$ 4 billion. Every marketer would like to maximize the marketing efforts & precious inputs by finding core customers through segmenting & targeting of potential customers in order to create uncontested market space, thus making competition irrelevant.

In this paper, an attempt has been made to explore how innovative customer contacts have emerged as a standalone and comprehensive area of knowledge in the pharmaceutical industry. As such, the paper seeks to understand through suitable examples and research findings: (1) the forces driving customer relationships; and (2) the issues involved in implementing customer relationship strategy, in the pharmaceutical industry. Suggestions are also made with regards to careful collection and application of personal contact information to the customers' database, and incorporating them into the marketing strategy of Indian pharmaceutical sector. Thus, the paper explains through suitable examples, the implementation of right marketing strategy by segmenting and targeting the market through individual customer interactions.

Key Words: CRM, CRM in Pharma, CRM Strategy.

Introduction

Customer relationship management (CRM) is the strategic process of shaping the interactions between a company and its customers with the goal of maximizing current and lifetime value of customers for the company as well as maximizing satisfaction for customers. CRM is a complex set of activities that together form the basis for a sustainable and hard-to-imitate competitive advantage, since it involves vital customer-focused strategies.

The implications of managing customers for different outcomes including optimization of the asset value of customer relationships have in outlined in CRM literature. Traditionally, salespeople in the pharmaceutical industry have been held accountable for short-term revenue generation to achieve higher sales volumes. However, due to the entry of more players in the market over the last decade, the

* Professor and Chairman, Board of Studies in Business Administration, Berhampur University, Orissa, India.

** Faculty Member (Marketing Area), National Institute of Science and Technology, Berhampur, Orissa, India.

matrix of success for pharmaceutical marketing has shifted perceptibly from customer revenue to customer profitability.

Pharmaceutical companies rely on sales/medical representatives to deliver marketing messages to doctors. Hence, priorities of doctors' visits for pharmaceutical representatives are set as: "doctors' call plan". These representatives often do not enlist into the call plan, those doctors who do not prescribe their products, and devote extra time and effort on doctors who are most responsive to their products. If armed with the right information, a representative can call on doctors according to their likelihood of responding to specific brands, and can carry out detailing and sampling of specific brands, resulting in higher customer profitability. While discussing on implementation of CRM strategy, one should distinguish pharma marketing from the mass marketing practices adopted by the FMCG sector.

FMCG Vs. Pharmaceutical Marketing

The main challenge before pharma marketers today is to identify: Whether the marketing of prescriptions is related to mass marketing practice adopted for FMCG marketing? There are variations in the operational style and function of marketing adopted by the two sectors i.e. pharma and FMCG. For example, FMCG marketers seek to obtain precise information about consumers' product usage and exposure to advertising messages to improve the sales promotion strategy. Pharma marketers on the other hand, move a step further and strive for precise information on doctors' prescription habits and exposure to detailing and product sampling.

The general planning process adopted in FMCG marketing has surprisingly failed to obtain specific consumer data on consumption pattern, both in terms of quantity and variety. For example, let us consider the inputs for marketing a detergent product (viz: Surf-Excel). The producer (i.e. Hindustan Uni-Lever) seldom finds an opportunity to know the quantity of Surf-Excel consumed by the specific consumer. Similarly, HUL will seldom look for information concerning the usage of the range of other products consumed by the specific consumer. HUL gathers periodically sufficient data concerning the detergent usage for different households within a particular territory and makes an analysis of consumer buying pattern under similar demographic conditions. In other words, the FMCG marketing does not take into account sufficient information about the specific consumer.

In this way, the pharmaceutical marketers have a wealth of information that FMCG marketers lack. They possess excellent data on how many prescriptions a doctor wrote for a particular brand on a particular day. They also know about the number of prescriptions same said doctor wrote in favour of their competitors. Through a periodic review of customers' (doctors') data, the pharma marketers seek to improve the sales promotion strategy. Pharmaceutical marketers maintain the call details and samples distributed to doctors for promoting the specific brand(s). They also carry out strategic reviews and course corrections if required through monitoring doctors' prescriptions, by obtaining relevant information from the chemists.

Foundation of CRM in the pharmaceutical industry is based on the prescriber (i.e. doctor) and sales-force relationship. Pharmaceutical firms spend a large amount of money on marketing communication directed towards physicians. For example, the firm spent \$ 8.5 billion on marketing communication directed at physicians (Wittink, 2002, Neslin, 2001) in the year 2000. Out of the above expenditure, the major head was under the detailing budget that included personal sales calls on physicians. Since detailing is a personal interaction between a physician and the firm's representatives, the budget allocated are spent at the individual physician level.

Pharma marketers are, therefore, required to decide on the number and timing of calls they have to make to each physician individually as a part of their promotional endeavors. Past research has revealed that the product sampling made by these marketers could influence the physician's decisions to write

long-term prescriptions for patients (Morelli and Konigsberg, 1992). Researchers (Narayanan, Manchanda and Chintagunta, 2005) have also argued that such marketing efforts made by the firms may have both informative (e.g. reducing cognitive uncertainty) and a persuasive (e.g. inducing positive affect) roles. The most useful research in this direction is probably the sparse literature in medicine that examines the motives of physicians while dispensing free samples to the patients. Such motives could emanate from factors such as: (1) financial savings; (2) convenience; (3) immediate initiation of therapy; (4) demonstrating appropriate use of drugs; (5) adjustment of doses; (6) evaluating effectiveness or adverse effects of drugs (Chew, et al., 2000; Duffy and Clark, 2003).

Studies (Gönül et al., 2001) have revealed that detailing has a positive and significant effect on doctors' prescription of specific brand of drugs. Others find that detailing has a very modest effect (Mizik and Jacobson, 2004) or no effect at all (Rosenthal et al., 2003) on brand prescriptions or sales. Leeflang et al., 2004 pointed that the incongruent effects of detailing are mainly due to the marketing expenditures made by the firms across different brands. Promotion of brands would vary in accordance with physicians' preference and responsiveness of the marketers to promote them through detailing, frequent meeting or by using other promotional instruments. Though marketing efforts by pharmaceutical companies have positively affected the physicians' prescriptions, diminishing returns to detailing have also been frequently reported. Manchanda, Rossi and Chintagunta (2004) found that product detailing had positive effects on prescription behaviour of high-volume physicians, while the low-volume physicians were found to be more attentive and responsive towards detailing.

In developed countries (viz: U.S.A.), the recruitment of sales representatives in the pharmaceutical industry has increased six-fold during the last two decades, and has crossed the huge figure of 1,00,000. Researches in the past also revealed that Detailing (30.6 percent) and sampling (50.6 percent) to physicians amount to 81 percent of promotion spending by pharmaceutical firms in 2000 (Rosenthal et al., 2003).

When the firm promotes a more effective drug, as compared to a less effective drug, its ability to lower physician uncertainty about the drug and increase physicians' affect toward the drug is higher, as there will be stronger scientific evidence to back up the marketing effort (Azoulay, 2002). Narayanan and Manchanda (2006) argued that a physician may financially subsidize low income or low-coverage patients through sample-dispensing and the prescribed drug is administered as a free sample, thus adding to the misery of a pharmaceutical company by low volume returns on investments.

CRM and Market Competition

In a tough competitive market reeling under global recession, companies must work smarter while maintaining the same level of resource. As a result, pharmaceutical companies are gradually realizing that they can no longer afford to be only product or market focused. Hence they have to focus now on customer relationship management (CRM) and gain a complete understanding of their current and potential customers. Companies, which implement CRM, not only increase the efficiency of their sales and marketing efforts, but also enhance their customers' experience and loyalty towards the pharmaceutical company. Pharmaceutical companies in India, to give a sustainable competitive edge are also going to meet some additional challenges including: (i) Patients influencing doctors' prescriptions; (ii) Cost-effectiveness of the brand of drugs; (iii) Guarding against unethical dispensing of medicines at chemists level which bypass the physician's decision on specific brand of drugs (the whole purpose of it).

Critical decisions concerning strategy and resource allocation necessitate a detailed and accurate understanding of customers and overall market. By using successful sales and service strategies, a pharmaceutical company could maximize customer profitability, improve marketing campaign effectiveness, and optimize multi-channel interactions with customers, resulting in higher revenues and a competitive advantage.

When a customer has a good (or bad) experience with a company, and decides on the basis of that experience to give more future business to it (or less), the firm has gained (or lost) value at that very instant, with the customer's change of mind (Peppers and Rogers, 2004). Balancing between such extremes in order to maximize overall value creation is not a new or revolutionary idea. Blattberg and Deighton (1996) suggested "the customer equity test" to balance marketing expenditures between customer acquisition and customer retention efforts.

CRM and Profitability in the Pharmaceutical Industry

The roadmap to profitability for pharmaceutical companies has been changing. Never before has the industry faced so many challenges at once. Harder-to-find blockbuster molecules, expiring patents on moneymaking drugs, pricing pressure from all players, and competition from new drugs, me-too drugs and generics are all threatening industry profitability. In addition, issues such as: strict industry and government regulations, Drug Price Control Order (DPCO), increasing media and public scrutiny coupled with prescribing decision-makers (viz: doctors) who have less time to spend with the sales force require more resources from companies just to maintain status quo- have made it difficult to achieve the firms' profitability. The pharmaceutical landscape has, therefore, become more volatile and unpredictable. While these firms have to bear the soaring costs of Research and development, the purchasing power vested with few customers coupled with stringent regulations have made the promotional efforts more challenging. Today, the pharma industries are forced to control spending on doctors' calls in their efforts to drive profits.

There is a higher demand for pharmaceutical marketers to deliver bigger profits from increasingly smaller promotional budgets. These are a few critical decision areas, which, if addressed appropriately, can help deliver better ROI. Therefore, many leading pharmaceutical companies are now looking for a thorough access to customers' data, which could enable them to improve the segmentation, targeting and positioning of specific brands. This process involves: i) identifying the key metrics and analytics needed to track trends in prescribing behaviour; ii) designing, creating, implementing and executing marketing strategies that effectively measures ROI of core products; iii) measuring customer satisfaction; iv) assessing the validity of ROI analysis, as compared to the competitors; and finally, v) using all the above information to determine the best allocation of promotional resources to identify the most appropriate segments to target for promotional investment optimization, accountability and effectiveness.

Pharmaceutical marketers are asked today to deliver bigger profit margins from diminishing marketing budgets and to demonstrate accountability when making promotional investments. With a better understanding of ROI analysis, pharmaceutical companies can develop and implement more effective marketing communications, and thus enhance profitability. ROI will shape the future of a new commercial model for pharmaceutical companies and prepare product strategies for this shift in focus in order to understand how to utilize and map the potential lifecycle of a product. Plan for strategic initiatives like up gradation of drugs formulation, and key individual roles can only shape the direction of any brand of pharmaceutical product.

Towards a New CRM Approach in the Pharmaceutical Industry

Above all, the advancement in information technology and its impact on CRM has posed the biggest challenge before pharmaceutical sector today. CRM endeavors are now aimed at reducing communication-gap between the company and the customer, whereby the focus is on estimating the value of customers. Many pharmaceutical companies have developed sophisticated customer databases which highlight on how customers are being treated by the salespeople, and what is the customer's orientation towards the specific products. The estimates of customer value are usually based on projecting recent purchasing patterns of the customer based on the adjacent chemists' monitored data. The pharmaceutical companies

also seek to explore how much profit the firm could make on each sale call to a customer; thus getting closer to an estimate of customer profitability and customer potentiality for specific products. Finally, a leap further in the development of CRM strategy of the pharmaceutical industry could include the following:

Meeting the New Challenges

It could be evident from the aforesaid research literature that the pharmaceutical industries have to cope up with a variety of new challenges to survive in the competitive market. The customer relationship parameters in these companies have to simultaneously consider the customer profitability (Skelton, 2007). As a part of CRM strategy for retaining customer profitability in the pharmaceutical industry, the following steps may be utilized.

(1) Develop Precision Marketing

Precision marketing means increasing the productivity of the sales force through improved understanding of the complete prescribing value chain. This requires in-depth knowledge of the motivations and attitudes of prescribers, and consideration of all of the influencing forces that act upon them. Identification of the influencers, the span of influence achieved by each group, and the strength of each influencer on the ultimate prescriber is also required.

(2) Determine New Sales Strategy

As pharma marketers seek to understand the prescribers and influencers of their products, they have started experimenting with new sales strategies in order to gain in-depth market knowledge. Many pharmaceutical companies are today switching over from old-style mass call coverage strategy based on large sales teams, to that of small focused teams call coverage which could provide more information on prescribers (specialty divisions). This approach is complemented by a key account management approach, whereby the role of the pharmaceutical representative has expanded to include local account strategy, team selling, focused expertise, training, coaching and mentoring activities. These approaches allow sales/ medical representatives to build a strong relationship with both their key prescribers and the prescribers' influencers, through better understanding of their needs, and the factors that influence their prescribing decisions.

(3) Resize and Restructure Sales Force

Creating a right-sized and correctly structured sales force is a complex process. The pharmaceutical company has to ensure that its targeting is optimised, since there is a need for understanding the influences on prescribing pattern in the market. There is a need to determine an acceptable level of disturbance to existing relationships – and how to realign them. Company could also use local consultants who understand market and prescriber dynamics, and have the in-depth understanding of how best to use local information sources.

(4) Manage Process Changes

The internal change management is essential to ensure a smooth transition. The pharmaceutical company should initiate a programme to ensure that the types and severity of changes can be pre-empted and measures can be put in place to handle the prescribers' influencing pattern.

While some companies rely on their own sales forces to build valuable relationship with key influencers and prescribers, others augment their sales organisations with focused teams. In addition mirrored sales forces (e.g. multiple representatives calling on the same doctors to promote the same brands) have been reduced – or even removed. On the whole, over the last ten years pharma companies have been growing the number of details they perform by around 10% per annum. At the same time, pharmaceutical sales revenue has declined from double digits to around 7-8% –

meaning a reduction in ROI. Consequently, almost all large pharmaceutical companies acknowledge that their sales forces are over-staffed.

Call Value Targeting

Pharmaceutical companies have to adopt “call value targeting”, which looks at each doctor as an individual market and each potential sales call as a unique investment opportunity with a definable value (Stephen, 2007). It seeks to overcome the flawed assumption in market segmentation that all doctors chosen in a segment carry same weightage. In order to determine whether the call value targeting accurately accounts for the impact of detailing and sampling, the doctor-level forecasts need a placebo for comparison. To create the placebo, a doctor’s prescribing pattern during a specific period should remain unchanged. It is important to note that simple calculation forecasted prescriptions with actual prescriptions could exhibit high correlation, even when account for details and samples offered to a doctor are not available.

Let us consider an example: a doctor after prescribing a drug for over 30 years has requested a pharma company for sponsorship to attend an International Conference, so that he would participate in a panel discussion on drugs administration. These drugs might be produced by the pharma company to which the doctor has requested for sponsorship, since he has been regularly prescribing them. On the face of the issue, attendance of a doctor in such a conference might not seem to carry any value for the company. However, a number of critical points that relate to the knowledge of the drug quality and marketing strategy could emerge through such sponsorship extended to the doctor. The sponsorship may induce the doctor to be an integral part of the company’s promotion strategy, and would motivate him to enhance prescriptions. On the other hand, due to lack of proper information about the doctor’s potential, the company may not sponsor him for the event, thus creating negative effects.

Though call value targeting embodies important clues from mass marketers, their thumb rules vary. The mass marketers devote considerable time and effort to test the right product by using the best possible methods in order to find the right customer segment through test marketing. A company engaged in promoting reputed FMCG brands might take a year or two to experiment with the promotional strategy before finally implementing a strategy. While choosing the market segment, the reliance is more on secondary data concerning the consumption pattern of FMCG products. However, the same rule cannot be applicable for promoting pharmaceutical products, which exhibit an incremental enhancement through doctors’ prescriptions.

Call value targeting addresses a subtle flaw in the way mass-market segments are typically constructed. Doctors are usually targeted by pharma companies based on their rate of past prescriptions. Each doctor is accordingly assigned a call frequency such as: doctors identified as heavier prescription targets receive more calls than lighter ones. Past prescribing habit serves as a good predictor of total prescriptions written by a doctor, and could indicate how many scripts a doctor will write in future, in response to detailing and sampling. The call value targeting seeks for individual call opportunities (which happen to be attached to individual doctors) based on their expected value.

Call value targeting can be conveniently used by the pharmaceutical sales representatives to target their market segments, as there are no judgment calls about which doctor to see next outside the call plan list. Call value targeting would work effectively only when the doctor-level experiences yield incremental prescriptions. If such experiences don’t work, it might meddle with the sales plan, resulting in negative outcomes. However, it could be suggested that most companies could enhance their business by adopting this method of marketing after a thorough market research on potential customers and their real time output.

Conclusion

Despite having so much of vital information about individual doctors, it seems strange that most pharmaceutical marketers still continue to behave as if they are selling FMCG products in the mass market. Thus, there is a need for pharmacy marketers to collect and use right operational data about the customers. Doctor-level prescribing data analysis makes it possible to take this data and quantify each doctor's unique responsiveness to details and samples for a brand.

Within the pharmaceutical industry, segmentation results in valuable sales calls by going to doctors who are even unlikely to write more prescriptions. Although this could mean going off plan on the part of the sales representative, it could help the pharmaceutical company to a great deal in terms of enhancing customer value and profitability in the long run. For example, an average doctor who is identified by the representative as high-responsive towards detailing and prescribes more quantity of drugs as per the call plan might be skipped out from the target segment identified by the company.

There is a need for diffusion of innovation in the pharmaceutical market in order to gain compelling, practical and exclusive insights into promotion of their products through effective segmentation and CRM based on doctors' database concerning incremental return of prescriptions. This would enable the pharma marketers to understand and optimise product launches, defend brand strategies, manage product lifecycles and enhance relationship with core customers, besides ensuring that the core customers are beyond the reach of their competitors. Implementation of segmentation and targeting of core customers could empower the pharma companies, only when such information leads to vital clues concerning cost management imperatives, ROI, and increased efficiency.

References

- Azoulay, Pierre (2002), "Do Pharmaceutical Sales Respond to Scientific Evidence?" *Journal of Economics and Management Strategy*, Vol.11, No.4, pp. 551-559.
- Blattberg, R. C. and Deighton, J. (1996), "Manage Marketing by the Customer Equity Test". *Harvard Business Review*, Vol.74, No.4, pp. 136-144.
- Chew, Lisa D., O'Young, Theresa S., Thomas, K. Hazlet, Katharine, A., Bradley, Charles Maynard, and Lessler, Daniel S. (2000), "A Physician Survey of the Effect of Drug Sample Availability on Physicians' Behaviour," *Journal of General Internal Medicine*, Vol.15 (July),pp. 478-483.
- Duffy, C.M. and Clark, M. (2003), "Who Receives Free Sample Medications?" *Journal of General Internal Medicine*, Vol.18 (April), p.205.
- Gönül, Füsün F., Carter, Franklin, Petrova, Elina and Srinivasan, Kannan (2001), "Promotion of Prescription Drugs and Its Impact on Physicians' Choice Behaviour," *Journal of Marketing*, Vol.65 (July), pp.79-90.
- Leeflang, Peter, Wieringa, Jaap and Wittink, Dick (2004), "The Effects of Pharmaceutical Marketing on Sales of Prescription Drugs in the Netherlands," 6th CU-Boulder Invitational Choice Symposium.
- Manchanda, Puneet, Rossi, Peter E. and Chintagunta, Pradeep K. (2004), "Response Modeling with Non-random Marketing-Mix Variables," *Journal of Marketing Research*, Vol.41 (November), pp.467-478.
- Mizik, Natalie and Jacobson, Robert (2004), "Are Physicians 'Easy Marks'? Quantifying the Effects of Detailing and Sampling on New Prescriptions," *Management Science*, Vol.50, No.12, pp.1704-1715.
- Morelli, D. and Koenigsberg, M.R. (1992), "Sample Medication Dispensing in a Residency Practice", *Journal of Family Practice*, Vol.34, pp.42-48.
- Neslin, Scott (2001), "ROI Analysis of Pharmaceutical Promotion," Association of Medical Publications available at <http://www.rappstudy.org>.
- Narayanan, Sridhar, Manchanda, Puneet (2006), "Heterogeneous Learning and the Targeting of Marketing Communication for New Products". Working paper, Graduate School of Business, Stanford University.

Prasanta K. Padhy and Suresh Patnaik

Narayanan, Sridhar, Manchanda, Puneet and Chintagunta, Pradeep (2005), "Temporal Differences in the Role of Marketing Communication in New Product Categories," *Journal of Marketing Research*, Vol.42 (August), pp.278-290.

Peppers, D. and Rogers, M. (2004), "Managing Customer Relationships, Wiley and Sons, Inc. Hoboken, New Jersey.

Rosenthal, Meredith B., Berndt, Ernst R., Donohue, Julie M., Epstein, Arnold M. and Frank, Richard G. (2003), "Demand Effects of Recent Changes in Prescription Drug Information," *Frontiers in Health Policy Research*, Vol.6, pp.1-26, David M. Cutler and Alan M. Garber (eds.), MIT Press.

Stephen, Kent (2007), "Is Pharmaceutical Marketing By the Customer Equity Test", CEO-PBE, Princeton Brand Econometrics.

Skelton, Nev (2007), "Changing times for Sales Force Effectiveness". IMS Health Publications, www.scriptsupplements.com.

Wittink, D.R. (2002), "Analysis of ROI for pharmaceutical promotions", Association of Medical Publications, available at www.rappstudy.org.