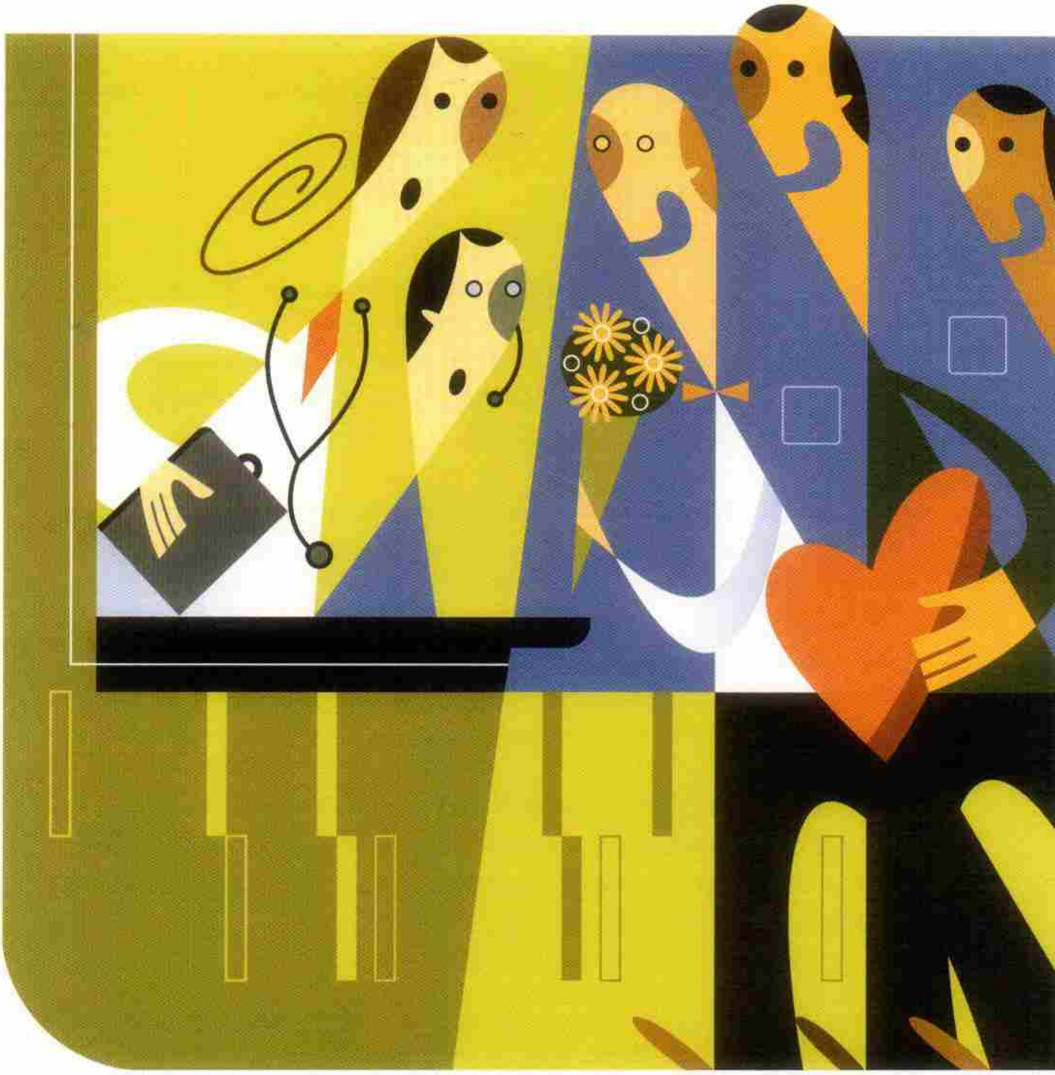

Making more of pharma's sales force

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Pharmaceutical companies have lost their focus on doctors. The key to higher sales is regaining it.

US pharmaceutical companies have for decades relied on the "pinball wizard" sales model: sales representatives bounce from one doctor's office to another in hopes of catching a few moments with physicians and influencing which drugs they prescribe. The model has without doubt

been successful, increasing the physician's awareness of the range of medicines available and providing pharmaceutical companies with rising sales and the highest margins of any mainstream industry. But in recent years the changing dynamics of the business have prompted a massive expansion of sales forces. The resulting system is costly, inefficient, and rife with dissatisfaction.[1] Sales representatives complain that they are undertrained and underrewarded; district managers are overburdened; physicians feel under constant assault; and drug companies face escalating costs. On top of all that, medical-ethics committees and the media criticize sales practices such as taking physicians to dinner or to the theater and underwriting weekends at resorts as training seminars.

For these reasons, pharmaceutical companies are considering what can be done to transform their sales model. The solution, we believe, lies in one that reemphasizes the importance of forming lasting relationships with physicians. At some point—as the portfolio of drugs expanded, competition intensified, and sales forces expanded to cope with these changes—the focus on doctors was lost. It could be regained if physicians were to be segmented

[1]Our recent study, using surveys, focus groups, and one-on-one interviews, involved 16 US pharmaceutical companies, more than 100 primary-care physicians, and hundreds of sales representatives.

in a way that helped the sales force deliver the information they want and if the district manager's role were reorganized. With the spotlight back on physicians and their needs, companies would be better placed to capture more market share and pull ahead of competitors.

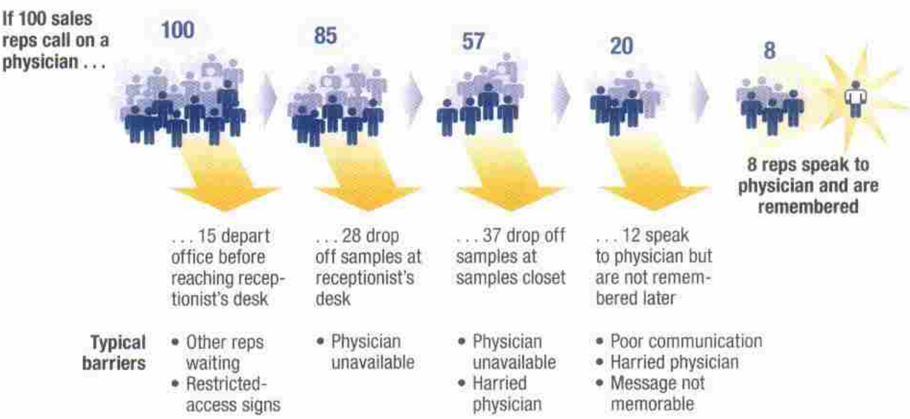
Diminishing satisfaction

Great changes have taken place in the pharmaceutical industry in the past few years. Both competition from generic drug producers and the rise of managed care in such forms as health maintenance organizations (HMOs) have increased pricing pressure and therefore made it more urgent to boost market share. Blockbuster drugs, such as the painkiller Celebrex and the erectile-dysfunction drug Viagra, have become an important means of achieving that aim but have also made it more necessary for reps to sell particular products. Meanwhile, a flurry of mergers and acquisitions—a total of 18 major deals since 1989—introduced other concerns, notably confusion among doctors about which companies were marketing this or that drug. And with many companies attempting to piggyback on the success of their competitors' drugs by marketing similar ones, the differences among products have become blurrier. The industry's response to these problems was simply to throw more reps at physicians. From 1995 to 2001, the number of reps doubled, to 80,000—an influx that has had repercussions for the entire industry.

As matters stand, a rep is responsible for selling a lead drug and perhaps two secondary drugs, and one rep's lead drug will be another's secondary. As a result, when reps with a different lead drug call on the same physician, they usually compete to sell the same products; the theory is that at least one rep will eventually win over the physician. In the process, it is thought, the

EXHIBIT 1

Reps run the gauntlet

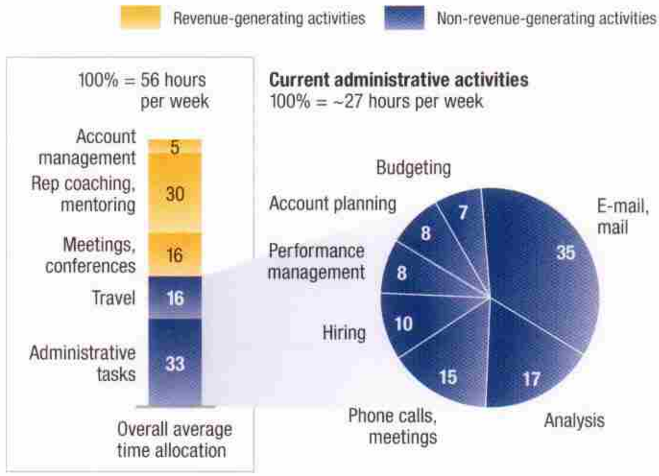


development of relationships with physicians will encourage them to prescribe a range of the company's products and, at the same time, diminish the value of competitors' relationships. This model succeeded for a long time. But now, with the sharp rise in the number of reps, it is less effective.

EXHIBIT 2

Where does the time go?

Time spent by district managers on various tasks, percent



Source: 2001 McKinsey survey of 250 district managers; McKinsey analysis

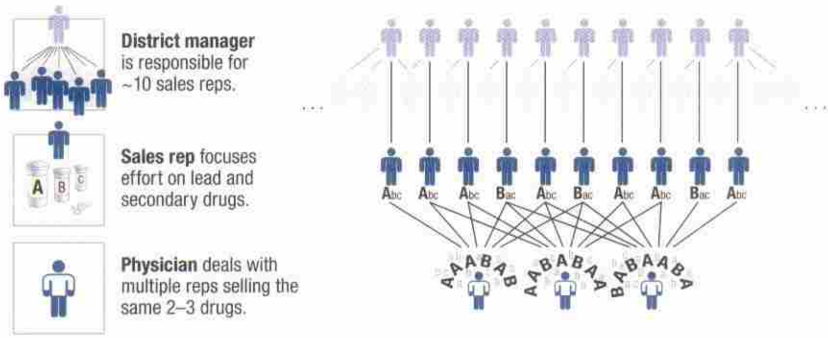
For a start, they find it increasingly difficult to see doctors. Our study suggests that a rep gets an opportunity to speak with a physician in only one out of five office visits (Exhibit 1)—and then for less than two minutes. Moreover, reps are often poorly informed. Most are less experienced than reps were even five or six years ago, and many complain about a lack of training. Some 80 percent of sales executives agree that attention to the coaching and development of reps has suffered as sales forces have expanded.

Physicians certainly feel that they aren't getting the information they need. In one extreme example, a physician told us that eight reps had given him samples of an arthritis/pain medication they were trying to sell but could recall no clinical details from their pitches. Doctors also want to know what patients think about a drug, how much they pay for it, whether they comply with its treatment regime, what HMOs will pay for, and how HMO formularies (approved lists of drugs) are structured. Yet the reps' knowledge is limited to the sales pitches devised by marketers at corporate headquarters.

Indeed, far from thinking that companies are trying to build relationships, physicians feel besieged. Top-prescribing ones say that they now receive three to five times as many calls from sales reps as they did ten years ago—on top of other problems, such as the demands of managed care and reductions in government reimbursements, that have made office practice more hectic over the past decade. One physician complained that the situation is "becoming unbearable" and that reps "are less knowledgeable, more pushy." According to our survey, almost 40 percent of doctors' offices now limit the number of reps they admit each day. Even reps who had clear relationships with doctors in the past say that many of these ties have been disrupted in recent years.

EXHIBIT 3

A drug-induced headache for physicians



After all, companies redraw their territories—often annually—to accommodate the new reps and thus cut off relationships that fall outside the newly assigned turf.

District managers, too distracted to help much, are equally discontented. Each of them must already hire, train, and supervise reps; serve as the district expert on a single drug and work with corporate marketing departments to promote it; and manage relationships with large practices. Now, with more reps to hire and place and with the constant redrawing of territories, managers have to devote almost half their time to tasks that don't generate revenue (Exhibit 2, on the previous page) and spend an average of only six days a year in the field with each rep. That isn't enough to help reps or to evaluate them properly or even to gather feedback on how doctors feel about the company and its products.

Evaluation is further hampered by the way sales teams are organized. Every district has several managers, each responsible for a different drug and each supervising, on average, about ten reps, who sell it as their lead drug. The managers are not, however, responsible for contacts with individual physicians, who thus see a string of reps with different managers and different lead and secondary drugs. Coordination therefore becomes a nightmare for the district manager, and it is also extremely difficult to assess the company's relationship with any individual physician or even to work out which rep is responsible for a sale (Exhibit 3).

The inability of district managers to evaluate the members of their teams properly is all the more frustrating in view of the fact that the compensation of managers is linked to their reps' performance. Managers would desperately like to reward high performers, if only they could be pinpointed. Not surprisingly, the best reps are also unhappy. Our analysis showed that at both the rep and the district-manager level, current evaluations don't clearly distinguish between high and low performers; almost everyone ends up in the middle (Exhibit 4). In any event, only 25 percent of a rep's total pay package comes in the form of a bonus; as much as 75 percent is guaranteed—far above the 40 percent that is standard in many industries. And pharmaceutical companies typically cap compensation as well. If they are to compensate high performers properly, they must change that structure.

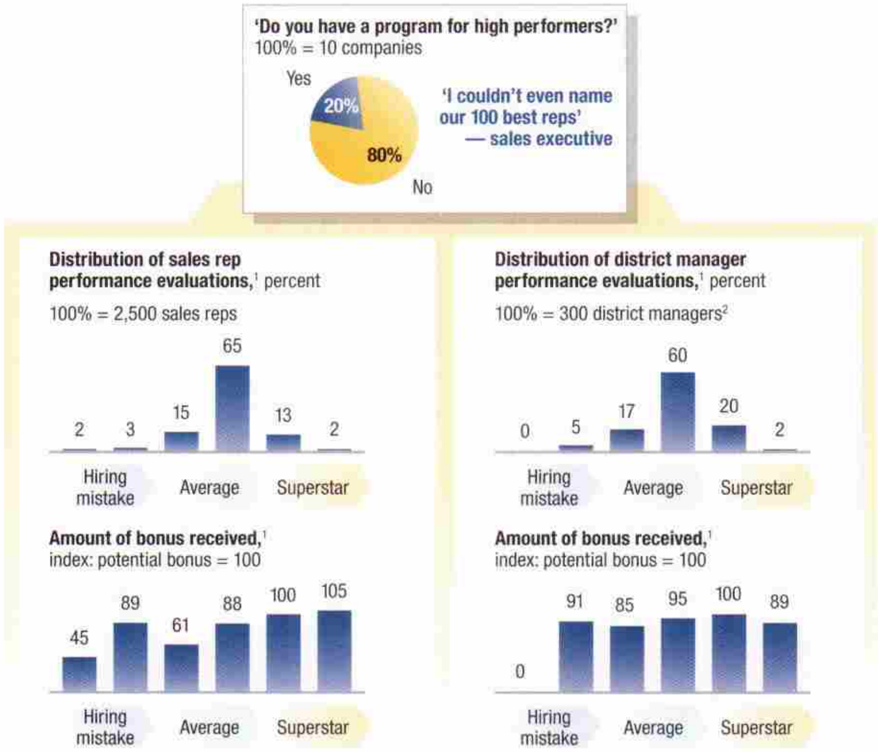
For pharmaceutical companies, the bottom line is that they now see a diminishing marginal return on every additional sales rep. Furthermore, the opportunity cost of retaining a single low-performing district manager who runs three average or below-average teams can be as high as $20 million a year (Exhibit 5, on the next spread).

Increasing effectiveness

If the way to improve the effectiveness of the sales model is to build better relationships with physicians, how can this goal be achieved? Our findings suggest that this can be done by segmenting physicians, providing better information, and redefining the district manager's role.

EXHIBIT 4

Equal pay for unequal performance



[1]Disguised example of pharmaceutical company.
[2]Does not total 100% because of rounding.

A different segmentation

The drugs that physicians habitually prescribe are hard to change, so current sales efforts encourage those who are already high prescribers to prescribe more. It would, though, be more useful to assess the lifetime value of a doctor's prescription habits. Not one company we surveyed does so regularly, but the information is available: when a patient fills a prescription, the order is stored in a database that can be matched for drug, producer, and physician. The data can be used—along with information on the current stage of a physician's career (just started practicing? close to retirement?)—to target physicians who are most likely to prescribe more of a given drug over time, no matter how much or how little they prescribe at the moment.

In addition, a company with a strong presence in a particular therapeutic area can capture more value by pursuing physicians who specialize in that discipline and might be expected to prescribe additional drugs from the company if they came to trust it. The lifetime value of a cardiologist—especially a young one—will be greater for companies that have a strong current offering of cardiovascular drugs, as well as a robust pipeline of new ones, than for companies that don't focus their R&D in that area. As a result, segmenting physicians by their lifetime value rather than by drug gives a pharmaceutical company a more comprehensive view of their potential value across its entire product range and facilitates the building of long-term relationships.

One company experimented with this approach and found that the lifetime emphasis brought a whole new swath of doctors to its attention, displacing a quarter of the physicians it had previously thought were of greatest value. Its previous method of segmenting physicians—by the number of prescriptions they wrote—had led it to focus its efforts on doctors in midcareer. But the lifetime-value analysis revealed the importance of young physicians, including residents and new practitioners, who, though not currently big prescribers, were specialists in a given area and could thus be expected to prescribe more over time.

Better information

Improving relations with physicians also means providing better and more tailored information about products and the diseases they treat. Besides segmenting doctors by their lifetime value, companies need to ascertain their attitudes about a number of issues—something that only 20 percent of the companies we surveyed have done. A physician's attitudes about prescribing drugs rather than recommending alternative therapies, about certain classes of drugs (a preference for a particular antibiotic, for example), and about

EXHIBIT 5

Lost opportunity

Portfolio value of district managers (DMs) by performance level,[1] $ million

[1]Assumes low performer manages 1 average team and 2 low-performing teams; high performer manages 1 average team and 2 high-performing teams.
Source: Interviews; McKinsey analysis

experimenting with different drugs are especially relevant when companies launch new products. Other issues, such as how physicians wish to receive their information (on-line, for example, or at off-hours meetings) and the restrictions they face from insurers, are relevant at all times.

One company, which had developed a new drug to treat a common condition, started its marketing push with a standard corporate pitch targeted at physicians in several practice areas. Sales were surprisingly poor, and for the first time reps were asked to dig deeper into the attitudes of physicians. Of the 90,000 who were approached, more than half believed either that the condition was not an illness or that drugs were not an appropriate treatment. The company's marketing pitches had failed to anticipate this problem. As for the rest of the physicians, the reps found that more than 20 percent already used the company's drug or a competitor's, while the remaining 25 percent were willing to use drugs as part of their treatment. These physicians had questions about safety, efficacy, and patient reimbursement that were easily answered, though the company's sales pitches didn't address all of these issues.

The company responded by cutting the sales resources aimed at uninterested physicians by about two-thirds and by trying to engage them with new educational materials showing that drugs could be helpful for this particular condition. (Reps reported that, over time, some physicians began to consider drugs as part of their treatment regimen.) Meanwhile, the company redirected most of its resources to physicians who were already interested in its product or in using a drug to treat the condition and made sure that its sales pitches answered their specific concerns. Sales to that group rose markedly.

As this example shows, companies with specific information about doctors' attitudes can apply it to target resources and to tailor sales pitches; and as doctors come to realize that reps have something valuable to say, there will be a greater willingness to listen. It also suggests that at least some physicians of lesser value can be influenced over time. Moreover, these doctors make an ideal test group for lower-cost sales channels such as faxes, the Internet, and direct mail, and relationships can be built in the process. Companies can then use the most effective approaches to reach higher-value prescribers and thus further personalize and strengthen relationships with them.

The district manager's role

To be effective, district managers should have fewer responsibilities and administrative tasks and more clearly defined goals. Their most important responsibilities should be gathering knowledge about physicians (to assist in segmentation) and about reps (so that each can be rewarded properly).

Most pharmaceutical companies we surveyed employ large numbers of inexperienced reps and thus require a model in which managers supervise two or three sales teams, each including all of the reps calling on any one group of physicians. It would then become easier to coordinate and improve approaches to them, though reps would still be assigned lead and secondary drugs. A manager's main job would be supervising reps closely to improve their relationships with doctors. The manager would teach reps basic selling skills; improve their knowledge of products; help them tailor information to the individual physician; and hire, promote, and fire them. Managers would spend 80 percent of their time coaching and mentoring reps and half of their time in the field.

In those few companies lucky enough to have retained enough senior sales reps, the district manager will be able to concentrate less on managing reps and more on managing markets. Reps will be organized in the same way other companies organize them, but their greater experience means that they will need less direct contact with managers. Freed from this constraint, managers will be able to develop a more thorough understanding of districtwide factors affecting sales. One company that had arranged an expensive seminar, for example, wanted to invite only the top three prescribers served by each team of reps. But it was the reps themselves who issued the invitations, and they used the opportunity to reach the most accessible physicians, usually low prescribers, instead. The result was that 70 percent of the attending physicians were not in the company's target group. A market-oriented manager would have known more about the status of each physician in the district and ensured that invitations went to the right people.

Market-oriented managers also have the time to get to know and influence decision makers in a district's major HMOs and businesses. And they can dig more deeply into the attitudes of physicians and use this knowledge to personalize approaches to the top 20 or so prescribers in their areas. Talent-oriented managers help reps build relationships, but market-oriented ones can in effect act as superreps for the highest-value physicians to ensure that their needs are met. These managers will spend more time in the field with their reps than they do at present (though less time than talent-oriented managers) and will thus learn enough about the sales staff's skills and relationships with physicians to make effective evaluations.

In another industry that has a relationship-driven sales model, one company overhauled its sales practices in the way we have described and saw its sales rise by 20 percent within a year. The company realized that it had previously lost sales through its failure to identify likely high-value customers as well as its reps' lack of product knowledge—a shortcoming that prevented it from being short-listed for requests for proposals. As the company also discovered, 70 percent of its sales force's time had been spent on administrative activities that generated no revenue and could easily be reduced to give reps more time with customers.

To remedy these problems, the company not only segmented its customers using more detailed criteria than ever before and assigned its sales resources by customer value but also made it possible for its managers to spend more time in the field by eliminating many internal meetings and limiting e-mail and voice-mail traffic to the field. It set about filling the gaps in its reps' and managers' skills and knowledge by organizing workshops and training in the field, and it gave priority to territory-wide planning, customer feedback, and customer-focused sales plans. Managers received additional training in coaching skills, and the company aligned its compensation structure with its performance objectives by basing compensation on overall revenue growth, with a special bonus for growth in sales to the company's ten most important customers.

Many companies fear that such an overhaul will provoke an uncontrollable attrition of reps and managers, but this one found that only 25 percent of either group lacked the ability to execute a more customer-focused sales model and had to be fired; 35 percent needed some motivation and training but had the ability to learn; and 40 percent eagerly looked forward to meeting the new challenge.

Pharmaceutical companies have long known that the key to success is to build lasting relationships with physicians. Changes in the industry and an explosion in the number of reps have made this increasingly hard to do. Well-structured experiments to reestablish a focus on physicians will enable early movers to attract strong sales reps and managers and to shape the evolving pharmaceutical environment to advantage. Q

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