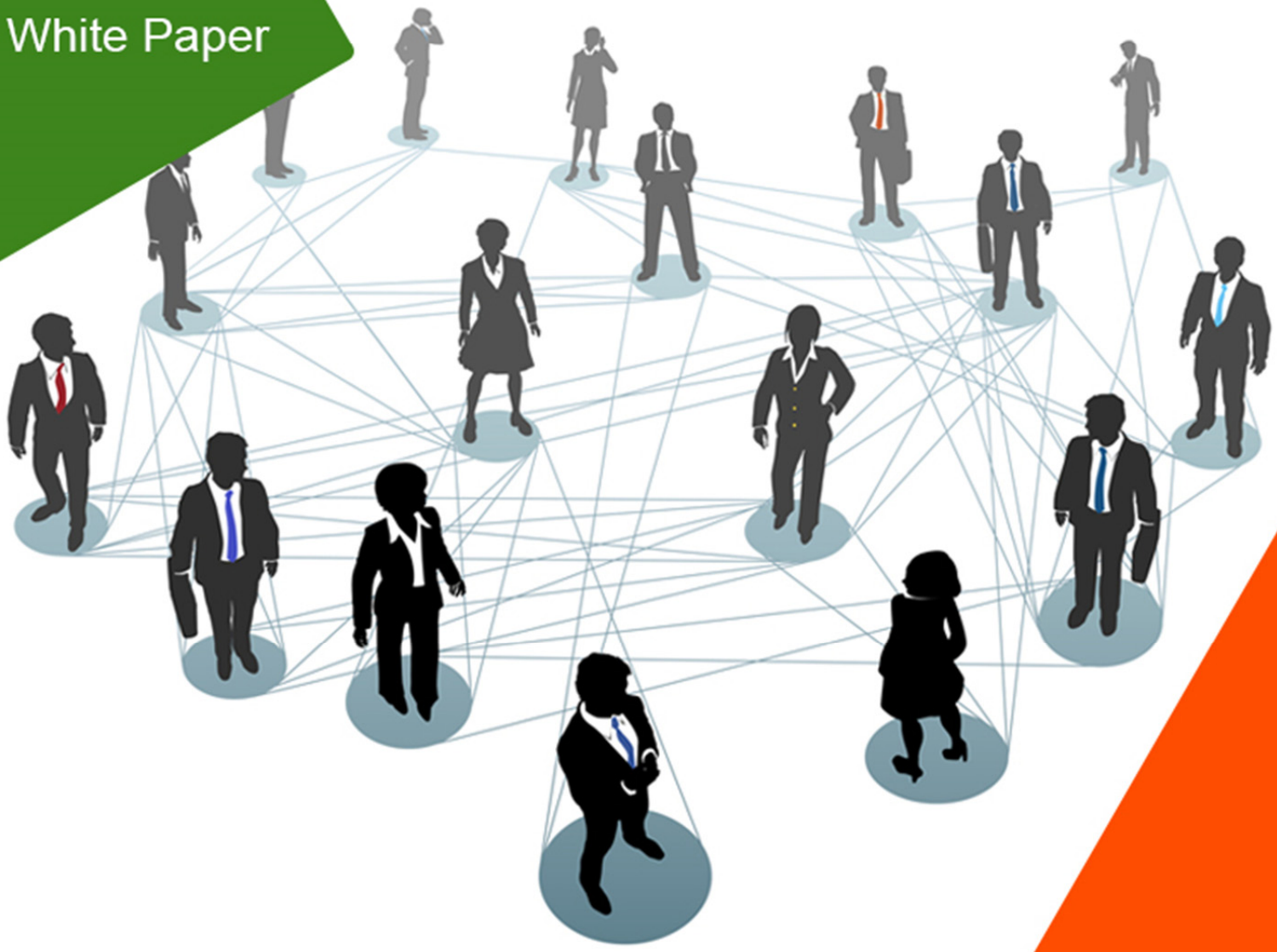
Enabling Smarter

Commercial Model Experimentation in the Pharmaceutical Industry

White Paper



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Introduction

Numerous publications, blogs, etc. have reported how quickly the pharmaceutical industry is changing and how manufacturers need to modify their approaches and structures to survive the competition. The pace of change necessitates that Pharma companies undergo a transformation; with organizations expanding the capabilities of their commercial models through smarter experimentation, scalable measurement, faster learning, and dynamic decision making regarding their commercial models.

A transformation of this nature is not necessarily easy to implement. A number of barriers may need to be addressed as Pharma organizations look to experiment and adapt their commercial model. Corporate cultures, infrastructure, and established processes need to be reviewed, evaluated, and perhaps modified.

This white paper discusses the challenges and potential approaches around creating a "***continuously experimenting, continuously learning, continuously adapting***" organization.

Situation

Today's pharmaceutical industry calls for nimble and agile organizations that can quickly adapt their commercial model ahead of competitors. There are tremendous advantages for companies that can recognize and react to the plethora of possibilities and uncertainties that unfold as the market shifts. The ability to be the first "mover" to capitalize on market opportunities positions a company as being innovative, customer focused, and an industry leader.

The traditional **physician**-dominant marketplace has evolved considerably since the beginning of the century. In nearly every part of the country, access to physicians is decreasing, prescriber autonomy is decreasing, and prescribing decisions are being influenced heavily by multiple stake holders in the healthcare continuum. The share of voice model is no longer effective in many markets, forcing Pharma to develop alternative ways to maximize performance.

Healthcare Providers are consolidating with hospitals and medical groups merging into networks and large health systems. Advances in technology, driven in large part by the successful implementation of electronic medical records, have allowed integrated health systems to become truly "integrated" and more powerful. As these systems expand and purchase group practices, they are able to exert more control on physicians through guidelines, protocols, and incentives.

Regulatory Changes are also contributing to the evolving marketplace. Government regulations and Pharma's own guidelines have severely impacted how a sales rep calls on a physician. Pharma has reacted aggressively to both public opinion and the number of stringent fines imposed for non-compliance. Internal controls are tighter than ever, with impacts permeating from the manufacturer to the payers and even to prescribers not wanting to see their names prominently displayed in Pharma's aggregate-spend reports now available in the public domain.

Changing Environment

As noted in diagram 1, the evolving healthcare environment has already contributed to significant changes to the commercial model at a number of Pharma companies.

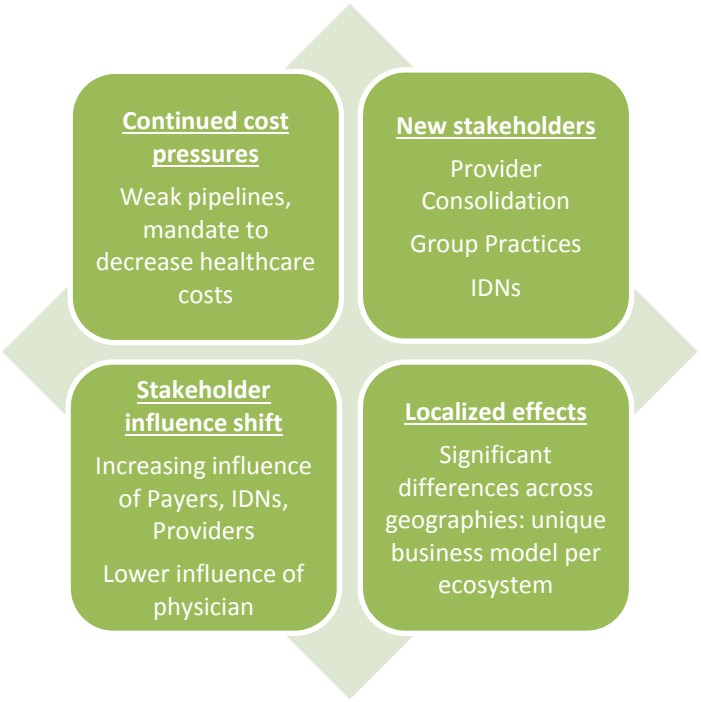

Diagram 1

Across the industry sales teams have been re-organized and/or restructured, often accompanied by staff reductions. New stakeholders (IDNs, ACOs, etc.) have been identified driving Pharma to introduce customer-facing roles with differing skills and backgrounds versus traditional sales reps.

Looking ahead, given the pace at which the Pharma ecosystem is changing, companies should look to implement a "continuous" experimentation culture supported by People, Process, and Systems to guide the evolution of the commercial model.

Diagram 2 outlines a model where an organization:

- Recognizes the need to evaluate a new approach
- Implements people, processes, and systems to test and measure the approach in a pilot situation (i.e. across several representative territories or districts),

- Has the governance and support to document learning, and as appropriate, expand the approach more broadly.

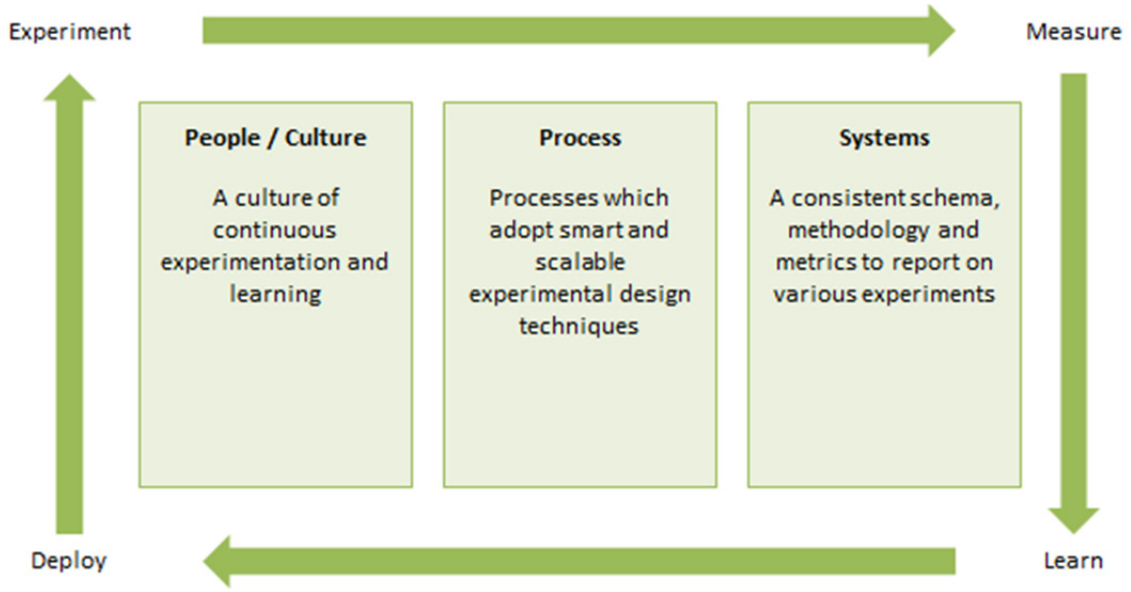

Diagram 2

For this approach to be successful a number of prerequisites should be place:

- An organization's corporate culture needs to support the concept that the marketplace is evolving and that adaptation is required for long-term success.
- Not every experiment will be successful. Leadership needs to understand the risks involved and implement safeguards (from both financial and job security perspectives) that motivate impacted staff to embrace the experiments. Further, learning from unsuccessful experiments/pilots are critically important and need to be catalogued, analyzed, etc.
- A successful experiment does not necessarily mean the process is complete. The marketplace will continue to evolve causing Pharma to constantly look for new ways to drive performance.

Challenges

Historically, large-scale/"Big Bang" changes have been employed when leadership determines that market shifts have made the current commercial model ineffective. This approach takes a long time to design and implement, involves significant risk, requires organizational buy-in at a larger scale and, if unsuccessful, can have significant consequences that are difficult to correct. Further, by the time changes are fully implemented, the market may have shifted forcing additional changes to Sales and Commercial Ops organizations, processes, and systems.

Alternatively, Pharma organizations can adopt a "continuous experimentation" approach where changes in market dynamics are reviewed and solutions tested in select pilot geographies. To be successful with an approach of this nature requires an organization that (a) makes testing a priority, (b) is willing to run frequent iterations of multiple tests involving the "right" customers, (c) devotes the time and funds required to accurately measure, analyze and learn from the outcomes, and (d) has the patience to let experiments run their course.

The true challenge centers on ***time*** – this is specifically apparent in a business environment driven by bi-weekly performance data, quarterly earnings reports, etc. The time and resources required to design, implement, and evaluate experiments often tests an organization's patience.

Approach

The success of a Commercial Model Experimentation approach requires an organization with the ability to cohesively blend elements of people, process and systems.

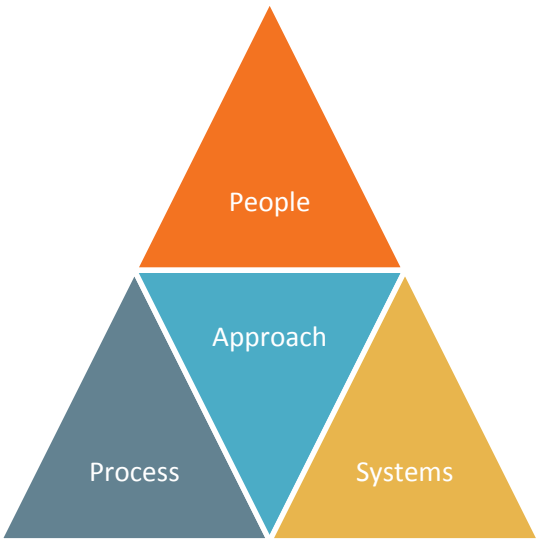

Diagram 3

A culture of continuous experimentation creates an atmosphere where **People** are able to raise new ideas, assess risks, and "think out-of-the-box". Experimentation and experimental learning needs to become part of the scorecard for senior leaders.

The formation of diverse, cross functional working groups can act as a conduit to review marketplace changes on a regular basis. Such teams can be led by Commercial Operations and include representatives from Sales, Marketing, Market Research & Analytics, Managed Markets, Federal/State Government Affairs, etc. Their focus should include the following:

- Share field insights on changing environment and new approaches being observed in the market
- Review primary and secondary local market research
- Brainstorm and create new ideas for commercial experiments

Expanding outside their internal organization, successful Pharma companies are soliciting assistance from others in the "ideation" process. A variety of methods are being leveraged in this capacity including crowdsourcing - a practice of obtaining ideas by soliciting contributions from a large group of people rather than from traditional employees. For example, vendors may be asked participate in contests to generate their top ten ideas. Pharma has the opportunity to review a diverse set of ideas, often involving best practices and approaches from other industries, and include one or more in various experiments.

As noted in Diagram 4, it is suggested that ideas run through a prioritization matrix in order to shortlist the experiments worth investing in – both in the near and long-term.

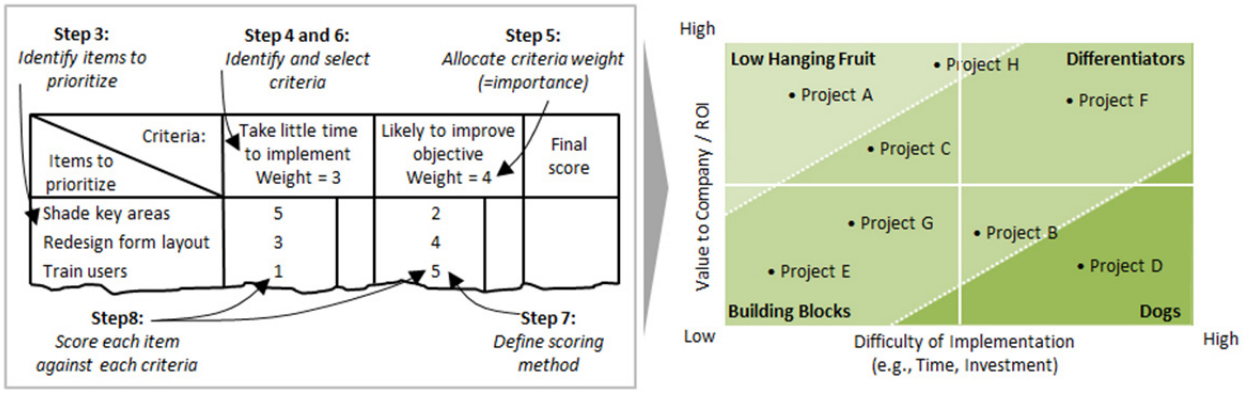

Diagram 4

Pharma organizations need to adopt smart and scalable experimental design techniques into their **processes.** This includes:

- Systematically designing a schema, data model, and process to store the specifications for each experiment conducted by the organization and record the results. Housing the data and results in a single repository can help scalability and reduce the need to conduct experiments in the future on some factors.
- Employing a consistent schema, methodology and set of metrics to report on various experiments.

- Utilizing primary market research can improve scalability. When the internal ideation process for experimentation creates several potential choices, qualitative market research, with different customer types (Doctors, Key Influencers, Payers, etc.), can help assess whether all experiments should be conducted or if some are more likely to be valuable. This pre-research, complimented by a repository of past experimental results, could be used to design experiments to run more intelligently.
- Fractional factorial designed experiments can be designed to achieve greater efficiency. These experiments combine various parameters in a way that allows inference of several factor effects from a smaller set of experiments carefully chosen to measure all the main effects with a smaller sample; saving time and reducing costs.

What is worth noting in this section is the Champion-challenger approach to continuous learning. This is a simple, intuitive concept where the current approach is considered the "champion" (see Diagram 5). To remain champion, it must compete against and perform better than "challenger" approaches. If the challenger wins, it becomes the new champion.

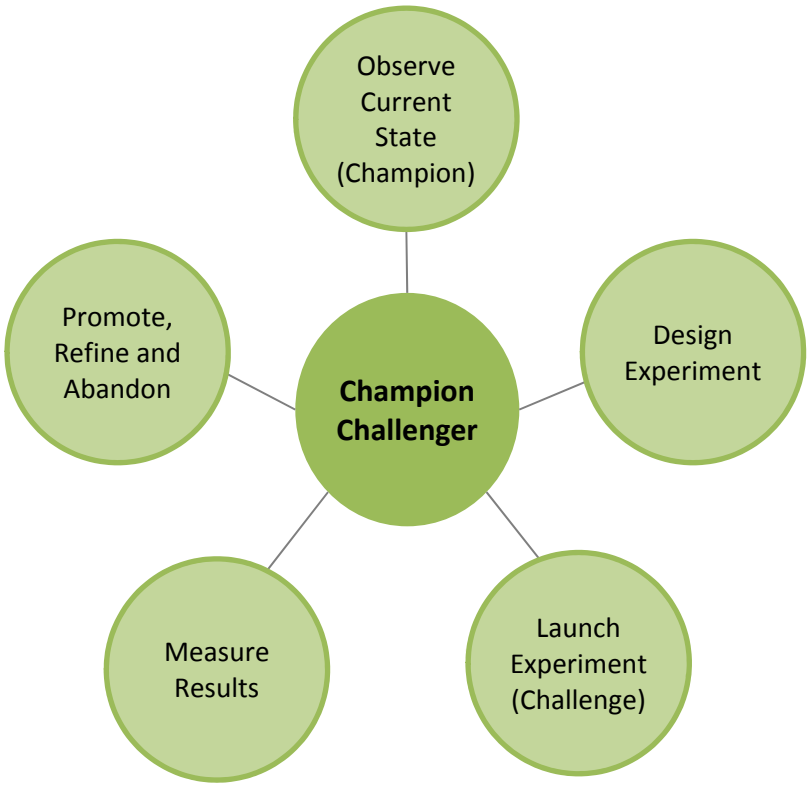

Diagram 5

The Champion-Challenger approach provides numerous benefits, some of which are detailed below:

- Creates culture of continuous improvement where innovation becomes routine – testing new approaches is standard business practice.
- Ability to detect when "best" is no longer best as it reveals when market conditions have shifted enough to create a new optimum.
- Low-risk assessment of alternatives, where a limited number of tests are employed that have minimum impact if they fail but can be quickly scaled if they work.
- Steady progress towards 'optimization', where a series of small steps that build on each other.
- Change for change's sake can be avoided, as an important part of innovation is to insure that the new approach actually delivers the desired result set – if not, stop the innovation.

Systems need to be in place to enable rapid scalability for pilots that are successful and ready for roll-out. Often, one of the things that may restrict a Pharma company from rapid experimentation is synchronization of sales ops processes between experiments and the "rest of the nation". For example, customer targeting experiments need to be synchronized with customer targeting for the rest of the nation. The same goes for alignments, reporting, and incentive compensation.

With regard to customer targeting experiments, a suggested approach may completely isolate the experimental team(s) from the rest of the nation, thereby allowing the experiments to be set up faster without the need to wait until the next targeting event. For incentives, it is important to simplify the incentive plans for experimental reps; even to the extent of predetermined payouts.

Experiments involving the Commercial Ops function often have significant upstream and downstream system implications. The inter-relationships and dependencies across systems need to be factored into experiments. Options to manage the experiments externally (i.e. through stand-alone systems) should be considered and evaluated, however they are often subject to a high degree of audit and process demands in order to ensure accuracy and compliance with various company policies.

Successful experiments will then need to be scaled up and implemented at a national level. This often involves a structured "gap assessment" to evaluate the "As-Is" situation and compare it with the desired state as unfolded by the experiment. The gap assessment analysis is critical to identifying and planning the people, process, and system aspects that need to be affected in order to ensure a successful national roll out.

As the market evolves so too will the volume, velocity, and variety of data. Experiments may need to be designed to deal with new forms of data based on their scope, the level of change being introduced, and metrics required to monitor results. Anticipating that systems may be impacted requires all parties (Commercial & I.T.) to be cognizant of current limitations as well as future needs.

Summary

As noted throughout this document, the traditional sales model where sales representatives detail physicians is under pressure for reasons including cost, alternative marketing channels, and increased influence of stakeholders beyond the physician.

To succeed, Pharma must adapt their sales and marketing organizations (and supporting processes) to address these changing demands. Axtria Inc. has assisted clients through such transformations and with this experience identified a number of best practices that we believe Pharma should consider.

The best practices include:

- Design experiments with specific goals and devote time and resources upfront to capture and measure outcomes.
- It is imperative that the experiment be owned by the business (those most impacted). Experiments owned by an internal "Adaptive Experiments" team or "innovation" department tend to struggle in gaining the requisite buy-in needed to deliver meaningful results.
- As noted earlier, do not be afraid to fail; that's what experiments are there for – to allow failure at a smaller scale rather than big bang changes.
- Do not underestimate the benefits associated with organizational communication and change management as experiments are rolled out. Business leaders, both in sales and marketing, will still get anxious about performance. It is important to get their buy in and ownership of the experiment while reinforcing the importance of allowing time for the hypothesis to be fully tested. Short term successes or failures may not necessarily be indicative of results over several business/ sales cycles.
- Companies that already have or at least recognize the need for a culture of nimbleness have the greatest chance of success. Organizations with the willingness and ability to constantly test new ideas, analyze the results, and implement local or national changes in a timely fashion will maintain a competitive edge.

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Axtria Inc.: *Axtria is an advanced analytics company that combines industry knowledge, analytics and technology to deliver solutions that help companies make better data-driven sales and marketing decisions, with measurable results.*

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