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PRODUCT BRANDING, E-MARKETING MAY BE UNDERUTILIZED

By Business Writer Brandon Honig

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Strengthened pharmaceutical branding and increased utilization of online marketing tools can have a significant impact on the revenue and market value of pharmaceutical firms, according to a presentation by Bill Trombetta, professor of pharmaceutical strategy and marketing at The Erivan K. Haub School of Business at St. Joseph's University.

Effective branding and marketing are important to the success of virtually any business. Their significance to the pharma industry, however, is underscored by the negative public image the industry currently carries. According to Trombetta, two feature films and two books are expected to be released in the coming months in which the pharmaceutical industry is portrayed as "the bad guy."

"I didn't think anybody could make the managed care industry look good," Trombetta said, "but you guys have done it."

"One factor contributing to the industry's negative image is the perception that spending on sales and marketing activities far outpaces spending on research and development. An article published in The New York Times in 2000, which Trombetta said continues to affect the industry's image, stated that Pfizer Inc.'s spending on marketing and administration (39 percent of sales revenue) more than doubled the firm's spending on R&D (17 percent).

The Times figures are misleading, Trombetta added, since administration costs should not be associated with marketing costs. When considered separately, Trombetta found that Pfizer's marketing expenses accounted for only 9 to 10 percent of sales revenue--an amount he said is still "way out of control."

"[I]n a lot of cases, [marketing] is just plain bone dumb," Trombetta continued. "Like having detailers waiting in line to see a doctor for 30 seconds. "Marketing dollars might be more wisely invested in online marketing endeavors," he suggested.

According to an audit conducted by Trombetta and scheduled to be published in Pharmaceutical Executive in July, various pharmaceutical brands generated sales-per-representative in 2002 ranging from \$1.5 million to \$5.3 million. Trombetta said this figure points to an opportunity for e-marketing to impact the effectiveness of brand marketing at the lower end of that range.

More important to the success of a pharmaceutical product is effective branding. "Branding is everything," Trombetta said. In order to elucidate the value of an established brand, Trombetta pointed to Coca-Cola--a company with a market capitalization of approximately \$90 billion. According to Trombetta, only \$8 billion of the beverage maker's value is derived from brick-and-mortar assets; approximately \$82 billion of the company's worth comes from its brand equity.

"In Europe, they usually take brands into consideration on the balance sheet. In the United States, they don't," Trombetta said. "I think that's going to change."

The presenter acknowledged that many pharmaceutical marketers may be reluctant to spend resources branding a drug, since the product may receive only six to seven years of exclusivity before losing its patent protection. This fact, however, should not discourage companies from engaging in branding activities, he said.

One example of the power of branding is Pfizer's cholesterol-lowering drug Lipitor (atorvastatin), which Trombetta said currently accounts for 55 percent of Pfizer's overall profit.

While Trombetta said he strongly believes in the importance of branding a pharmaceutical product, he could not offer clear guidance on the importance of branding a pharmaceutical firm. A recent survey cited by Trombetta indicated that Johnson & Johnson is the world's most admired and respected corporation--a factor stock analysts will most certainly take into account when valuing the

company, he said. While this finding seems to support the importance of corporate branding, Trombetta pointed out that a vastly different branding campaign succeeded in turning Viagra (sildenafil) into a household word, without greatly increasing the visibility and recognizability of the drug's manufacturer (Pfizer).

While individual product branding clearly increases consumer trust and, ultimately, drug sales, the implications of corporate branding remain a matter of conjecture.

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Additional Notes

Real Amount Spent on Pharma Marketing

Dr. Trombetta offered the following analysis of the real amount pharma spends on marketing as a percent of revenue (2001 numbers):

Total Spend on Pharma Marketing:

- About \$16 bill.
- Revenues in 2001: \$180 bill. at retail
- $\$16/\$180 = \text{less than } 10\%$

The \$16 bill:

- About \$3 bill. for DTC
- About \$1 bill. for journal advertising
- About \$4 bill. for detailing
- About \$8 bill. for sampling, but sampling
 - Is funny money: "free"
 - Gross margin = 80%; COGS = 20%
 - $20\% \times \$8 \text{ bill.} = \text{about } \2 bill.

Real Amount Spent on Pharma Marketing:

- About \$10 bill.
- $\$10/\$180 = \text{between } 5\% - 6\% \text{ of revenues}$

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