

## Survey Results Reprint # 43-06

### Pharma Cost-Cutting Strategies

By John Mack

In February, reports circulated that Pfizer was poised to cut as much as 30% of its sales and marketing force (see "[Pfizer to Slash 30% of its Sales & Marketing Staff](#)"). This elicited a lively discussion among members of the PHARMA-MKTING listserv, including the following comments:

*"This could be the signal that starts the great pharma sales force massacre. On the other hand, I'll believe it when I see the blood in the streets. Seems I just saw McKinnel on record as saying PFE would stay the course. Of course, when the denials are strongest just before events belie them." -- Terry*

*"I saw a segment on CNBC the other night where an industry analyst mentioned that there was a lot of buzz that pharma marketing and especially the sales forces are next to go (and soon). Pfizer could make the first move, but we can probably expect a much broader trend due to increasing financial pressures." -- Mark*

*"We are just starting to witness the fat trimming that is about to take place mostly in sales force side then marketing. With 26% decline in sales rep productivity since 1996 when the industry started to fight for Share of Voice and doubled rep numbers to what we have today, something got to give when there is no ROI. This is not going to be pretty picture friends. I was speaking to a CEO of one of the top 5 multinational companies yesterday and he indicated that there is going to be significant adjustment taking place for the industry especially in sales and marketing." -- Mick*

A recent *Philadelphia Inquirer* article ("[Party may be over for Big Pharma](#)") painted the following bleak picture for the industry as a whole:

*"Layoffs appear to be growing. Drug companies announced more than 8,700 job cuts nationwide in November, December and January, the biggest three-month figure for the sector since 2003.*

*"The American Stock Exchange Pharmaceutical Index is currently down 31 percent from its high over five years and 11 percent over the last year.*

*"Analysts are predicting a rise in mergers, partnerships and licensing deals as companies scour for profitable products and cost savings. Viren Mehta of Mehta Partners in New York projects that Big Pharma's sales growth will slow to 5 percent a year in coming years, half as fast as the last decade."*

The pharmaceutical industry faces many challenges ahead including blockbusters going off patent, generic competition, collapsing sales due to product withdrawal, price pressures, etc. All this puts pressure on pharma profitability and Wall Street is clamoring for cost cutting measures. Now may be the time to end the pharmaceutical sales and marketing "arms race" and/or increase sales and marketing ROI.

### Survey Results

With that as a backdrop, Pharma Marketing News hosted an online Pharma Cost Cutting Survey between February 22, 2005, and March 18, 2005. Respondents indicated how likely they thought pharma companies would adopt several cost-cutting strategies within the next six months. This article presents a summary of the results. You can also get an up-to-date interactive summary by [clicking here](#).

The survey asked respondents to rank the likelihood of several cost-cutting strategies as highly unlikely, somewhat unlikely, somewhat likely, highly likely. Respondents could also choose "I don't know" for any strategy. The chart of results on page 17 assigns a relative score to measure the sense of respondents as a group by assigning a numerical value to each response (no opinion=0, highly likely=20, somewhat likely=10, somewhat unlikely=-10, highly unlikely=-20).

The three most likely cost-cutting strategies according to respondents were mergers, reductions in the number of sales representatives and a cut in direct-to-consumer (DTC) advertising.

### Reduction in Sales Force

The vast majority of respondents (78%) felt that it was highly likely (31%) or somewhat likely (47%) that pharma companies would significantly reduce the number of sales reps in the next six months. No respondents sat on the fence—i.e., had no opinion—concerning this issue. Pharmaceutical company respondents were somewhat less enthusiastic about sales force reduction than agency respondents (see table on next page).

Respondent Group	Highly Likely	Somewhat Likely
All	31%	47%
Pharma	33%	33%
Agency	27%	50%

### Mergers

Sixty-three percent (72%) of respondents felt that mergers were “highly likely” (33%) or “somewhat likely” (39%). A substantial percentage (22%) of respondents, however, had no opinion on the issue of mergers. A significantly greater percentage of pharma respondents anticipate mergers and acquisitions than do agency—marketing companies and advertising agencies—respondents (88% vs. 54%; see table).

Respondent Group	Highly Likely	Somewhat Likely
All	33%	39%
Pharma	44%	44%
Agency	18%	36%

### Cut Back on DTC Advertising

Fifty-nine percent (62%) of respondents felt that pharmaceutical companies would cut back on DTC spending (21% thought it highly likely, 41% felt it somewhat likely). Pharma and agency respondents were pretty much in agreement on this cost-cutting option.

Respondent Group	Highly Likely	Somewhat Likely
All	21%	41%
Pharma	33%	33%
Agency	23%	45%

### Cut Back in Physician Marketing

Cutting back on spending on physician marketing was not popular with respondents—only 6% of whom thought it was higher likely and only 12% saying it was somewhat likely. A substantial portion (44%) of pharma respondents, however, though it somewhat likely that there would be cutbacks in spending on physician marketing. A few respondents suggested that less samples would be distributed as a cost-saving tactic.

Respondent Group	Highly Likely	Somewhat Likely
All	6%	12%
Pharma	0%	44%
Agency	5%	0%

### Impact on Agency Business

Fifty-four percent (54%) of agency respondents indicated that pharma cost-cutting strategies would have a somewhat negative impact on their business, although none predicted a highly negative impact. “In the short term,” said one respondent, “it is a bad news to vendors. In the long run, more and more outsourcing opportunities will appear.”

Mergers and acquisitions “bring everything to a halt in the involved companies, [including] decision-making,” warns one respondent. A technology vendor thought that less spending in general also means less spending on technology. While some respondents suggested that pharmaceutical marketers use most cost-effective channels such as the Internet, print-based marketing and promotion vendors would suffer from such a strategy. Nevertheless, one vendor respondent said: “I do think though that there may be an increase in DTP as well as patient education materials either provided by doctor or sent directly by pharma.”

The market research agency segment of the industry may continue to flourish regardless of what pharma does with its marketing budgets. If sales forces are reduced, for example, “those who are left will need to be more efficient at what they do and how they do it,” suggested one respondent. “That efficiency is measured most often by market research, whether it’s primary or secondary data. Remember, for the cost of just one specialty rep FTE -- \$250,000 -- a pharma company can do a rigorous quantitative analysis of the effectiveness of its sales force. It’s a relative bargain.”

### Other Suggestions and Comments

Several respondents suggested general expense containment options such as cutting salaries, commissions and bonuses, or improving ROI by process improvements or focusing on specific therapeutic categories.

Some specific comments included the following:

“Sales reps with ‘programs’ that improve GP efficacy in treating and educating patients provide a very real service that will show a ROI. Spending \$\$\$ Millions on logo pens and clipboards is a tragic waste of promotional spend that could serve a real purpose.”

“One way out of this is employing pharmacists to be medical reps because they know the drugs and are very capable of convincing the doctors [without] any extra marketing expenses. Bring in the experts!”

“Even if sales forces size have to be reduced while their productivity and effectiveness are developed and monitored, there are important cost reduction opportunities lying within marketing activities: stop the ‘nice to have’ and concentrate on the ‘necessary to do’ with ROI evaluation.”

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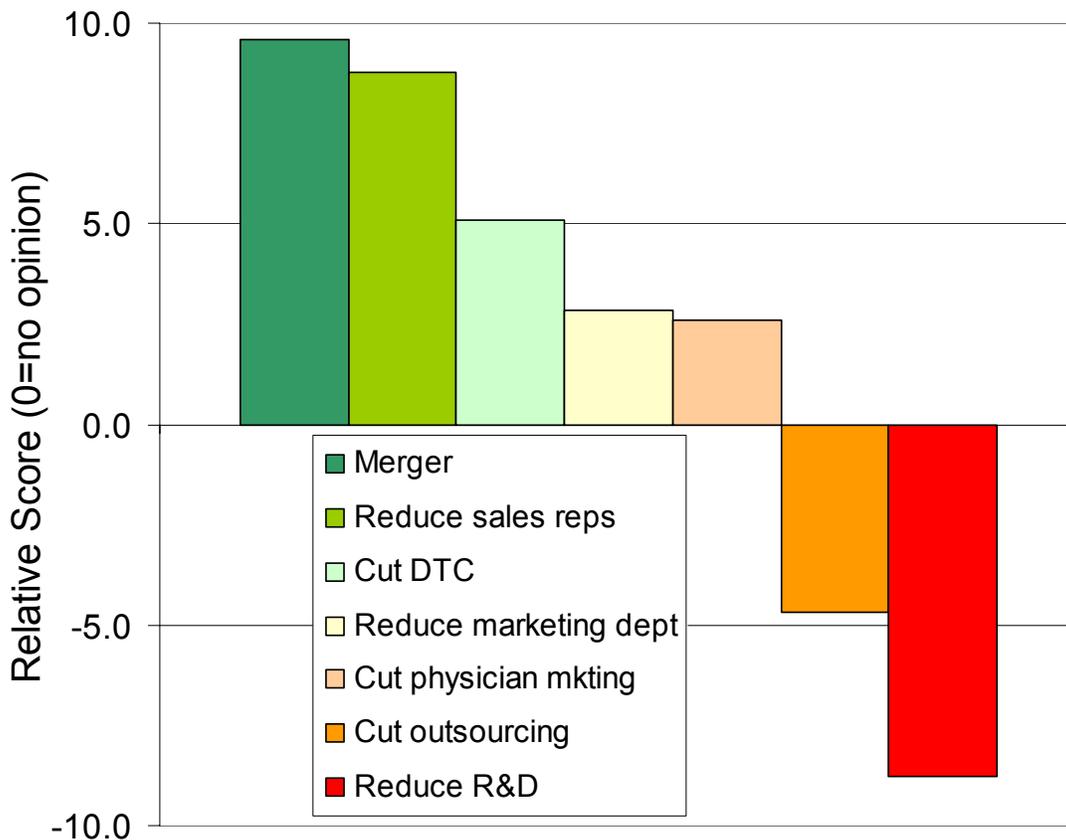
**Pharma Marketing News**

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**Publisher by:**  
 VirSci Corporation ([www.virsci.com](http://www.virsci.com))  
 215-504-4164, 215-504-5739 FAX  
<mailto:editor@pharmamarketingnews.com>

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### Survey Results

Scoring assigns the following values to responses: highly likely=20, somewhat likely=10, somewhat unlikely=-10, highly unlikely=-20, no opinion=0