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Measuring Marketing Strategy

By **John Mack**

As everyone knows, there is a great risk bringing a new drug to market (see box). Estimates suggest that only one drug in four repays its R&D and marketing investment. Consequently, a product for which there is an effective commercialization/ marketing strategy early on in the product life-cycle stands a significantly better chance of being successful and beating the competition.

> "The financial community is demanding transparency from marketers and boards want quantified results that measure more than awareness and simple cost of sales-- and they want them presented in the language of CFOs and CEOs. It's no wonder then that marketing measurement is the hot issue on everyone's agenda."
> -- *Do you measure up?* Marketing Magazine

Think Financially

Aside from the cost of developing new drugs, pharmaceutical companies are seeking a positive return on investment (ROI) from every process, including marketing. Marketing departments are feeling the pressure to measure the effectiveness of their campaigns and marketing managers need to be comfortable with financial thinking as well as creative thinking.

Marketers are beginning to realize that their role is about the effectiveness of the overall marketing strategy, not just the effects of one ad campaign. The metrics must also prove useful to determine business effectiveness and profitability, which are key concerns of companies and Wall Street analysts.

It has been said that there is only one way to test marketing: wait and see what happens. However, few pharma CEOs today would consider such a 'watchful waiting' approach to be appropriate.

"This observation highlights an unmet need in the pharmaceutical industry," says Mike Rea, CEO at Q2/ IDEA Group, a leading pharmaceutical marketing consultancy. "While it is possible to predict and measure the effects of sales promotion by direct measures, or by modeling using surrogate measures, there are no empirical measures of the effectiveness of strategic marketing that can be used to judge effectiveness."

Q2 Audit

To provide this measure of strategic marketing effectiveness, the principals at IDEA Group—Mike Rea, Dr Alexander Gray, and Stephen de Looze—launched Q2 Audit, a new company and an industry-standard measure of marketing effectiveness.

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Risky Business

Pharmaceutical R&D represents a risky process, and investments in this process bear that risk. For every drug successfully brought to market, there are 5,000-10,000 unsuccessful compounds screened and 250 that undergo preclinical testing. The cost of these failed projects must be considered when evaluating the costs of bringing a successful therapy to market.

The NIH describes the route to drug discovery as "unpredictable". The decision to continue with a project, made at several stages in the development of a therapy, has to consider several risk factors, including: therapeutic benefits; frequency and severity of adverse reactions; and the cost of production, distribution and marketing.

The low probability of proceeding from the pre-clinical phase to new drug approval (NDA) illustrates the high risk inherent in pharmaceutical R&D. Only two percent of projects in the pre-clinical phase are expected to make it to Phase I testing and, of these, only one in five are likely to be approved. The OTA report reveals that over a 17 year period, approximately 14 percent of self-originated NCEs first investigated in humans between 1964 and 1975 were approved.

“It is very difficult to know what 'good' looks like when it comes to product commercialization,” says Stephen de Looze, COO at Q2 Audit. “Q2 Audit applies a vigorous and structured audit to a product, looking at what is and is not beneficial to its progress.”

Strategic marketing, or commercialization, has significantly more impact on the success (or failure) of a product than does promotional marketing. Rea posits that strategic decisions have been responsible for all major successes and failures in the pharmaceutical industry in recent years, and the lack of measures that can be used to predict the success or failure of strategic decisions represents a significant area of uncertainty for the pharma industry and its analysts.

Strategic Marketing Failures

Many recent examples suggest that the increasing number of failures at regulatory submission directly resulted from failures of strategic marketing. This has a substantial effect on the top line, bottom line and, perhaps most importantly, on patients.

An example of this is the failure to adequately power studies to examine sub-groups of patients who may accrue greater benefits from a particular agent (responder/nonresponder analyses). Although the influenza agent RELENZA was shown to confer benefits in a heterogeneous patient population, the lack of robust evidence in those at most risk, where payers perceived the benefit of RELENZA to lie, prevented a smooth approval; one from which RELENZA has never recovered.

The chemotherapy agent IRESSA is another example: although the overall patient populations examined showed no significant benefit for IRESSA in later trials, it is evident that there are subpopulations of patients who do benefit. However, the studies were not formally designed to test this hypothesis, and so the opportunity to appropriately position in a population with a favorable risk/benefit profile was missed.

In an industry that typically lives within 20–30 year investment horizons and where billions of dollars are invested in R&D with the expectation of a significant return on investment, de Looze says it is unsustainable that strategic marketing (distinct from sales promotion) continues without a measure of effectiveness.

Marketing strategy involves commercial decisions concerning choice of therapeutic area, candidate selection, target product profile, target patient profile, definition and measures of efficacy and positioning. All these decisions need to be made as early as Phase I.

An Industry-Standard Measure

Because there has been no test of the strategy or the plans that inform these decisions at such an early phase in the product lifecycle, analyses suggest only 1 in 4 pharmaceutical brands ever repays its investment. The launch of a new industry-standard measure of marketing effectiveness, therefore, addresses one of the most fundamental challenges facing pharmaceutical companies in the 21st century.

The increasing noise surrounding ROI in the pharmaceutical industry reflects a basic tenet: you can only measure parameters where you have a yardstick available. Q2 Audit offers such a yardstick, which is already being used by investors, analysts, senior management and brand teams to rate companies’ marketing plans with the latest benchmark planning, best practice and investment indices.

As an example of how rating is important, take the investment side of the equation. It is wrong, says Rea, to assume that any degree of investment has a positive effect. “In reality,” says Rea, “the level of investment has to be compared with others in the market to ascertain whether it is above or below industry-standard. Furthermore, spending ‘$z’ behind a poor decision has a significantly different outcome than spending ‘$z’ behind the right decision.”

No two brands face the same challenge. An undifferentiated ‘me-too’ brand in Phase III, launching into in a primary care market, for example, has different imperatives than a novel transplant immunosup-pressant in Phase I. There are many historical analogs and financial models that provide benchmarks for investment in each case.

Q2 Audit allows pharma companies to see if new drugs are likely to match up to their potential in a fluctuating market place. “Markets are subject to rapidly changing dynamics that impact directly on the revenue performance of individual brands. Therefore, reassurance is needed, at each milestone in the product's lifecycle, that the correct strategy is in place,” says de Looze.

The essential philosophy behind Q2 Audit is to judge all products using the same scale, benchmark different brands’ commercialization strategies, and thereby allow companies to gauge the shifting impact of market factors.

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What's the Score?

Q2 rates the qualitative campaign against best practice (score 0–2; 1 = benchmark) and assesses the quantitative investment (score 0–2; 1 = benchmark), to provide a single overall score of 0-4. The company says that by increasing the rating of a commercialization program in its audit by 0.5 could increase the peak year sales of a blockbuster drug by $1 billion.

The audit provides an independent assessment of the probability that a drug will underperform or outperform its market and a report detailing the factors leading to the rating.

To gain a qualitative score of 1 or above, a brand must, for example, be clearly and well positioned in a strategically valuable market, have claims supported by the right data, be prepared to create need and grow market where necessary, and have in place effective market access and entry programs, opinion management and promotional programs. There is no single approach that works for all drugs – Q2 assesses each product within its unique market situation.

Potential Applications

The uses for Q2 Audit include improving resource utilization, comparing the output of brand teams within an organization, indicating an effective launch strategy to analysts without revealing strategy details to competitors, management reporting and creating a de facto archive of key stage decision-making (see box for more details).

By applying latest benchmark planning, best practice and investment indices to pharmaceutical commercialization plans, Q2 is a rational approach to the significant unmet need within the pharmaceutical industry to de-risk the strategic marketing element of commercialization. If, as most commentators agree, commercialization has greater impact on success than does R&D, a timely, independent audit of the qualitative and quantitative components of commercialization plans offered by Q2 is just what the industry needs.

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See next page for important contact information…

Potential Q2 Applications

- Improving marketing effectiveness
  - Increasing the rating of a commercialization program by 0.5 could increase the peak year sales of a blockbuster drug by $1 billion
- Improving resource utilization
  - Identifying inappropriate investment to greatly improve efficiency
  - Budget application support
  - Benchmark investment figures provide an objective measure for budget application; above-benchmark qualitative programs can more easily claim extra budget
- Standardizing marketing excellence throughout an organization
  - Directly compare the output of brand teams within an organization
- Indicating an effective launch strategy to analysts without revealing strategy details to competitors
- Annual pre-budget review
- Management reporting
- Creating a de facto archive of key stage decision making

To learn more about Q2, please contact **Stephen de Looze**:

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