

Interview Reprint # 59-04

Pharma Online Spending

An Interview with eMarketer Senior Analyst Lisa Phillips

By John Mack

eMarketer, a company that analyses trends related to e-business, projects pharmaceutical companies will increase their Internet spending by about 25% this year, to \$780 million, as marketers shift from consumer mass marketing to more targeted opportunities on the Internet. By 2008, online spending will rise to \$1.3 billion, according to eMarketer's new report, "Pharmaceuticals Online: Direct-to-Patient Becomes a Reality."

Recent data released by TNS Media Intelligence, however, indicate that pharma eMarketing is in a slump. While total DTC spending is up about 6.6% this year compared to last year (according to TNS Media Intelligence), online spending by pharma marketers dropped almost 3% (see Figure 1, below). TNS data does not include search advertising.

To better understand these numbers and other information presented in the eMarketer report, I

interviewed Lisa Phillips, eMarketer Senior Analyst and author of the report.

John Mack: On the first page of your report, you predict a 25% increase in pharmaceutical online spending this year. Since there is some divergence in data from different sources, can you explain what you base your estimate on? In particular, are you talking about display advertising only in your estimates?

Lisa Phillips: My estimate includes everything the IAB (Interactive Advertising Bureau) covers: search, e-mail, display ads, lead generation/referrals, and classifieds. Search is a huge part of finding the right people online. Most of the other sources of data—TNS Media Intelligence, Advertising Age, for example—do not include paid search advertising, which, according to IAB may be as much as 41% of a company's Internet advertising budget.

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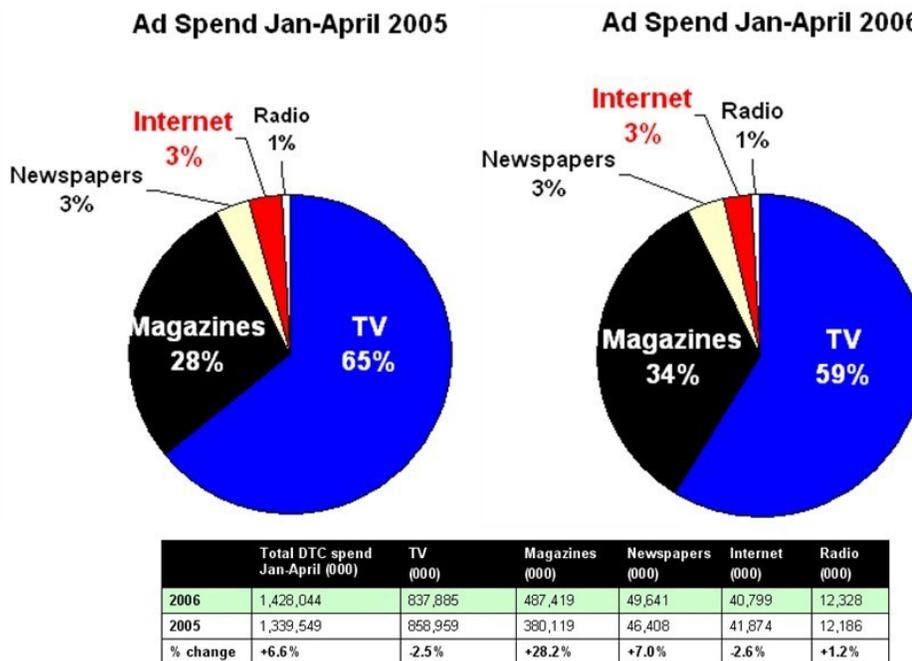


Figure 1: TNS Estimates of Pharmaceutical Online Advertising Comparing Jan-April Periods in 2005 and 2006.

Based on data from IAB specific to the pharmaceutical industry back to 2003, I projected the numbers out, keeping the projection rather conservative and estimating that Internet spending by pharma at around 5% of its total advertising pie.

Measured Media Spending

John: In your report, you talk about “measured” vs. “unmeasured” online media spending. Can you explain what these terms mean?

Lisa: “Measured media” include network TV, cable TV, Sunday supplements, newspapers, free-standing inserts, radio, and Internet (excluding paid search). “Unmeasured media” include sales promotions, trade shows, special events, some B2B publications, that sort of thing. Advertising Age looks at the 100 leading national advertisers to come up this data (see Table 1, next page). The 13 pharmaceutical companies mentioned are included in this 100.

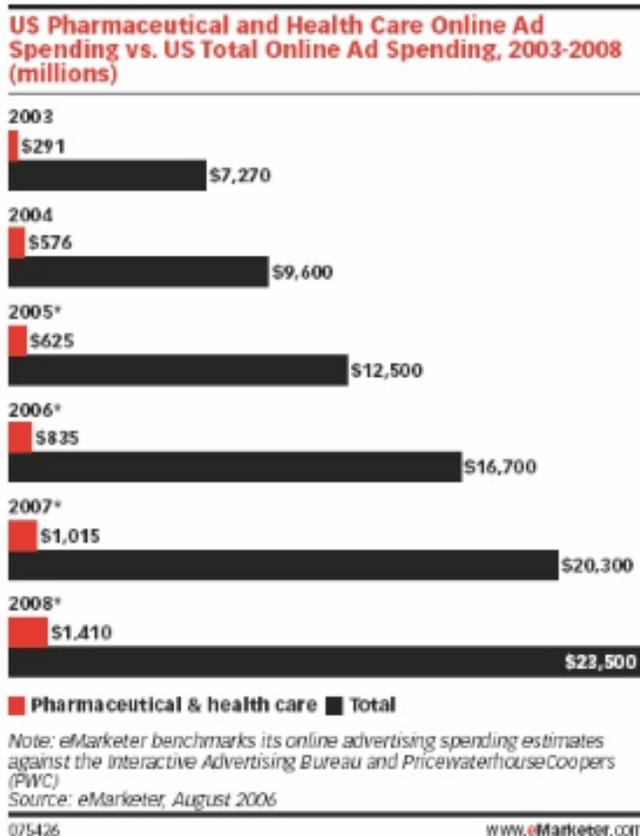


Figure 2: The red bars represent pharmaceutical and other health care industry online ad spending. The data for 2003 and 2004 are from IAB, eMarketer projections are for years 2005, 2006, 2007, and 2008.

US Online Advertising Spending for Select Pharmaceutical Companies, Q1 2005 & Q1 2006 (thousands and % increase/decrease vs. prior year)

	Q1 2005	Q1 2006	% change
Johnson & Johnson	\$4,692	\$8,489	81.0%
AstraZeneca	\$7,555	\$5,708	-24.4%
Novartis	\$7,086	\$4,426	-37.5%
Merck & Co.	\$534	\$4,243	694.3%
Pfizer	\$2,925	\$3,476	18.8%
Bristol-Myers Squibb	\$1,676	\$3,338	99.2%
Bayer	\$65	\$3,287	4996.3%
Wyeth	\$5,979	\$2,326	-61.1%
Sanofi-Aventis	\$919	\$1,759	91.5%
Eli Lilly & Co.	\$468	\$1,246	166.3%
Abbott Laboratories	\$168	\$658	292.1%
GlaxoSmithKline	\$3,575	\$563	-84.3%
Schering-Plough	-	\$119	-
Total	\$35,639	\$39,639	11.2%

Note: excludes paid search; data for certain markets may not be available for all time periods
Source: TNS Media Intelligence, June 2006

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Figure 3: Online Spending by Top Pharma Companies Rising. “Although Internet advertising took a dip in 2005, spending was up in the first quarter of 2006. According to TNS data alone, online display spending by the top 12 pharmaceutical companies rose 11.2%, to \$39.6 million, compared to the same period in 2005 when \$35.6 million was spent online. Still, TNS does not measure search advertising.”

Measured vs. Unmeasured Online Media Spending - Report Excerpt

“[The] 13 major pharmaceutical companies spent \$170.1 million in measured online advertising in 2005, or 2.6% of their measured media spending, according to Advertising Age/TNS data. Taking ‘unmeasured’ media into account, that share falls to just 1.23% of the total advertising budget estimated by Advertising Age. Online advertising by these companies dropped 15.1% in 2005, a much steeper decline than the slight drop in overall ad spending that year. Still, TNS does not include search advertising in its online measurement, which is a tactic of major importance to pharmaceutical companies, and could easily account for an additional 40% of prescription drug online advertising.”

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Behavioral Targeting

John: Your report talks about other industries using behavioral marketing techniques on the Internet (see Figure on right). A Pharma Marketing Blog survey indicates that, depending on the product and situation, most people believe that the pharmaceutical industry should try this technique, at least if done properly. What do you think?

Lisa: Although behavioral targeting online is used by other industries – most notably the automotive industry – I am not sure how successful behavioral targeting would be for the pharmaceutical industry where the issues are much more personal. That's not to say that the pharma industry wouldn't or shouldn't try it. It's one thing to do this for a diet drug, but entirely different for a cancer drug.

Pharma Marketing News

Interactive Marketing Channels that US Marketers Are Currently Using, Piloting or Expecting to Pilot within the Next 12 Months, December 2005 (% of respondents)

	Currently using	Piloting or expecting to pilot	No plans to use at all	Total adoption
E-Mail marketing	83%	10%	6%	94%
Search marketing	64%	16%	21%	79%
Behavioral targeting	38%	36%	27%	73%
Contextual targeting	37%	32%	31%	69%
Rich media e-mails	36%	31%	33%	67%
Rich media display ads	45%	22%	33%	67%
Blogs/social networks	13%	38%	49%	51%
RSS	10%	37%	53%	47%
Mobile marketing	11%	32%	57%	43%
Advergaming/in-game advertising	13%	15%	72%	28%

Note: n=253
Source: Forrester Research, May 2006

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Behavioral Targeting - Report Excerpt

“This year, the US auto industry began testing behavioral targeting, to find and follow online consumers who had visited certain auto Web sites and then went elsewhere on the Web, only to be served more auto ads once they reached other sites. Pharmaceutical companies have expressed interest in the technique, although marketers are wary of government regulators and the public's perception of an invasion of privacy. And well they should be cautious. One of the reasons consumers go online for health related information is that they are uncomfortable talking about their conditions, according to the Yahoo!/Hall & Partners survey. While most marketers (73%) were either using or planning to use behavioral marketing techniques this year, according to a Forrester survey in December, 27% of the 253 respondents said they had no plans to try it.” (See Figure, above.)

Rank 2005	ADVERTISER	Total US Ad Spending	Total Measured Media Spending	Magazines	Newspaper	Outdoor	TV	Radio	Internet
8	Johnson & Johnson	\$2,209.30	\$1,385.90	\$410.30	\$42.40	\$2.30	\$874.00	\$32.40	\$24.60
9	GlaxoSmithKline	\$2,194.20	\$1,162.90	\$265.30	\$36.70	\$1.80	\$823.60	\$21.40	\$14.10
11	Pfizer	\$2,152.50	\$882.50	\$240.90	\$56.00	\$0.60	\$541.00	\$23.10	\$20.90
28	Novartis	\$1,162.60	\$523.20	\$85.40	\$11.50	\$0.00	\$391.00	\$9.70	\$25.50
41	Wyeth	\$918.80	\$383.60	\$28.90	\$7.90	\$0.30	\$319.30	\$8.30	\$19.00
45	Schering-Plough	\$852.60	\$392.20	\$52.40	\$4.50	\$1.10	\$322.70	\$6.40	\$5.10
48	AstraZeneca	\$796.00	\$437.80	\$161.40	\$16.40	\$0.70	\$220.00	\$14.40	\$24.80
49	Merck & Co.	\$769.00	\$269.10	\$79.30	\$11.00	\$0.00	\$166.50	\$4.80	\$7.50
54	Sanofi-Aventis	\$686.70	\$274.70	\$111.30	\$5.90	\$0.20	\$146.20	\$3.00	\$8.20
62	Bristol-Myers Squibb	\$581.60	\$215.20	\$100.80	\$23.60	\$1.70	\$80.30	\$0.90	\$7.90
63	Bayer	\$571.70	\$314.40	\$33.70	\$12.70	\$0.50	\$251.00	\$15.80	\$0.80
72	Eli Lilly & Co.	\$475.30	\$194.90	\$23.80	\$4.70	\$0.10	\$156.30	\$1.00	\$9.10
85	Abbott Laboratories	\$414.80	\$207.40	\$87.10	\$5.40	\$0.60	\$111.70	\$0.10	\$2.50
	TOTAL/AVER	\$13,785.10	\$6,643.80	\$1,680.60	\$238.70	\$9.90	\$4,403.60	\$141.30	\$170.00

Table 1: Top 13 Pharmaceutical Company Media Spenders 2005. Dollars are in millions. For these 13 companies, the percent of spending on measured Internet advertising was 1.2% of their total advertising (measured and unmeasured) budget. Source: Advertising Age.