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pRECIA PHARMA: promoting ethical sales practices

Sandeep Puri and Ajay Kohli wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Marketing executive Munish Laddha’s email (see Exhibit 1), which arrived one evening in March 2017, was an eye‑opener for Sanjay Pawar, the managing director of pharmaceutical company Precia Pharma Private Limited (Precia). The email highlighted sales pressures and unethical practices in the pharmaceutical industry. Pawar remembered that these same issues had driven a medical representative to suicide in another pharmaceutical company, Abbott India Limited,[[1]](#footnote-2) a reality he could not ignore. In his suicide note, the Abbott representative had blamed unreasonable sales expectations. Pawar realized that Laddha, Precia’s star performer, was speaking on behalf of all sales representatives. When his wife Manjusha, the director of Precia, entered the office as he was thinking of possible ways to address the issues in the email, he shared his concerns with her.

Pawar knew the hypercompetitive business environment of the Indian pharmaceutical industry had led many companies to indulge in unethical practices to achieve ambitious targets and grab their piece of market share. He wondered how this situation would affect his own company’s ethical business conduct. He was anxious about how to sustain the company culture yet maintain a healthy balance between steep targets and good selling practices in an environment where there was tremendous pressure on sales personnel to “make the numbers.”

As Manjusha listened, she reminded Pawar about one of their marketing executives, David Katoley, who was caught submitting a false daily report of customer calls. In light of the ills plaguing the pharmaceutical industry, she wondered what to do with someone like Katoley, who was also a top performer for three consecutive years. Katoley was one of many executives who were instrumental in helping Precia end 2016 with sales revenues of ₹2,212 million,[[2]](#footnote-3) a 24 per cent growth over the previous year. It was clear that Pawar and Manjusha had to ensure that their company continued with the organizational culture and sales processes they were so proud of, yet meet the net revenue of ₹2,700 million they were aiming for in 2017 (see Exhibit 2).

COMPANY BACKGROUND

Precia, a generic pharmaceutical company, had found it easier than many competitors to rise up the Indian pharmaceutical industry ladder because of its innovative health care solutions. Precia’s focus was the management of lifestyle diseases such as diabetes. Pawar and his partners started the company in May 2010 with an initial investment of ₹20 million, 30 employees, and a range of diabetic, gastropathy, neuropathy, and cardiac products. Precia had quality-driven products sourced from different plants—approved by the World Health Organization—on a customized basis. Its core strength was its understanding of product differentiation and marketing as well as product sales and distribution.

Precia’s main asset—product and brand development—was driven by seasoned professionals. The company aimed for a pan-Indian reach and wanted to grow from a field force of 180 in 2016 to 700 by 2020. By March 2017, Precia boasted a line of 22 brands, including diabetic, gastropathy, neuropathy, obesity, and cardiac products (see Exhibit 3). The fast-growing branded pharmaceutical company had captured significant traction in its chosen segments within four years.

Human resources

Pawar and his human resources (HR) team stressed the importance of hiring the right people. Precia recruited young, energetic, ambitious, and multi-faceted marketing executives with good communication skills. Pawar emphasized fluidity and passion as important competencies in marketing executives. Fluidity helped these executives to “go with the flow” and use adaptive selling skills. He sought passionate marketing executives who sold their product through science, built good customer relationships, and maintained a positive attitude during different selling outcomes. His logic was that a pharmaceutical sales representative’s only job was to sell a generic medicine, but physicians prescribed the products of only those representatives they trusted and those who could show how useful these products were for patients.

Most companies did not invest enough in sales training, which meant the field was crowded with representatives with little knowledge. Not only did these representatives not dress appropriately, but they also failed to provide satisfactory answers to physicians, which led to a poor impression about medical representatives in general. Many of these representatives were also paid poorly, as Pawar and his HR team knew. Pawar emphasized good corporate culture and employee growth with a good work–life balance. Employees were offered a competitive compensation with a commitment to internal promotions. Precia organized regular training programs to empower representatives with excellent product knowledge and selling skills. It also organized workshops on work–life balance and stress management.

Logistics

Precia’s product movement chain was like that of any other pharmaceutical company: the manufactured medicinal products went to the central warehouses of the company from the production department. From these warehouses, the goods moved to the carrying and forwarding (C&F) agents in the different states, who in turn supplied them to 300 distributors[[3]](#footnote-4) in the different areas. These distributors then supplied the products to millions of retail pharmacies all across the country. The products moved to the final customers through these pharmacies (see Exhibit 4). Precia’s focused product portfolio and good distribution network allowed it to perform well in an increasingly competitive market.

SALES MANAGEMENT

With more than 23 years of experience working with companies like Burroughs Wellcome India Limited, GlaxoSmithKline Pharmaceuticals Limited, Torrent Pharmaceuticals Limited, Cipla Limited, and Lupin Limited, Pawar was well known in the pharmaceutical sector. To his credit, he was referred to as the person who had strategized and turned around the loss-making Maxter division of Lupin Limited into a profitable division based on ethical sales practices by implementing a sales hygiene. Pawar strongly believed the key driver to maximize sales, improve customer coverage, and optimize costs was an effective sales-force strategy. He was sure that increasing the efficiency and effectiveness of the sales force on a regular basis was crucial to the growth of Precia in the highly competitive market environment.

Pawar knew that an increasing return on investment from the sales force was critical to success in an environment where dynamic forces of the Indian pharmaceutical industry and the needs of physicians were ever changing. He was convinced that his sales team had to be leaner, meaner, and strong in the one-on-one physician–representative relationships. Pawar thought that a well-organized sales force meant efficient time management and better productivity. His advice to his top management was to be thoughtful while designing marketing and sales strategies. He asserted that a strong product line and commitment to the progress and development of employees would guarantee consistent sales growth and better customer satisfaction.

Sales Organization

Precia’s sales team, its biggest promotional investment, evolved over time through the adoption of innovative customer-centric practices. In March 2017, the team comprised 140 marketing executives[[4]](#footnote-5) (MEs) and was seen as the pharmaceutical industry’s best. Its legendary sales and product training involved an intensive four-week training at the company’s facility in Thane, Maharashtra, for every new ME and an annual week-long refresher course in the same facility. The MEs also had to spend four days every month, in groups of five, with an assigned area business leader (ABL) for field training and performance reviews. The ABLs reported to a regional business leader (RBL). Precia had 28 ABLs reporting to eight RBLs, who in turn reported to the sales manager (see Exhibit 5). The sales team was trained to provide better customer focus, increase call efficiencies, improve accountability of resources, and develop new accounts.

Role of Marketing Executives

Pharmaceutical selling, unlike regular selling, required marketing executives to have sound product knowledge and good selling skills because the physicians were their first customers. Physicians were surrogate buyers who prescribed products for their patients to buy from a pharmacy. The ME’s job was to deliver the company’s marketing message to its customers (in this case, physicians, distributors, and retail pharmacies) in its territories. MEs played a crucial role as the company’s brand ambassadors in the field.

Because sales representatives from different companies tried to convince physicians to prescribe their products, most representatives of leading pharmaceutical companies played the dual role of agent and advisor. These representatives, who were responsible for both demand creation and fulfillment, visited pharmaceutical distributors and retail pharmacies in their territories to check on the current product supply and to monitor inventory. Precia’s MEs not only sold pharmaceutical products but also analyzed sales statistics. They also prepared travel plans and presented reports on daily calls, stock and sales, expenses, and monthly performance. Other responsibilities included upgrading knowledge on new and existing products and keeping track of competitors’ products, sales, prices, and other promotional activities. MEs had to adhere strictly to the travel and customer plans.

Sales Process

Pharmaceutical selling was based on missionary selling; thus, sales representatives had to convince physicians how effective their products were over their competitors’ products. Missionary salespeople, also known as detailing salespeople, “detailed” products by presenting the features and benefits of medicines to physicians and retail pharmacies. They also provided a platform for physicians to learn about the indications, dosages, side effects, and prices of drugs.

Precia used sales-force automation (SFA) software by GoGreenSFA to monitor various field sales activities. The MEs used the SFA software to make daily reports of their discussions with customers. They had to follow a disciplined and planned calling system for regular visits to physicians, chemists, distributors, and hospitals. Their sales results were monitored by a sophisticated sales audit[[5]](#footnote-6) system. The company held quarterly sales meetings for MEs and monthly meetings for ABLs and RBLs. Sales performances were evaluated during these meetings, and plans were made for the upcoming quarters depending on the figures of the previous quarters in comparison to the annual targets.

Sales Targets

Each November, Precia decided on its sales targets for the following year. These yearly targets were based on industry and segment growth and the previous year’s sales. The company also considered any additional sales force, the launch of new products, and promotional plans. Precia followed the quality-target-quantity (QTQ) technique, whereby all RBLs, ABLs, and MEs needed to achieve both qualitative and quantitative targets. For example, MEs needed to meet 11 physicians and five retail pharmacies each day. They also needed to target 50 per cent of their time to “Gold-class” customers, 30 per cent to “Silver-class” customers, and 20 per cent to “Iron-class” customers. Each ME was mandated to complete a minimum of 242 calls to physicians and 110 calls to retail pharmacies each month. Similarly, MEs needed to achieve the required growth of value and volume targets on a monthly and yearly basis. ABLs and RBLs worked diligently with the MEs to guide them in achieving their targets. Precia offered handsome performance-linked incentives to MEs, ABLs, and RBLs.

Ethical Selling

Pawar believed in ethical selling practices and had built his career on this notion. The Precia sales team members were trained to look at the long-term effects of their actions. The company had strict guidelines on ethical practices in selling. Pawar emphasized that it was acceptable for a salesperson not to meet sales revenue or customer call targets in a month, but unethical practices were not acceptable. His company had clear policies for ethical business conduct for every customer section (physicians, distributors, and retail pharmacies). MEs were encouraged by managers to follow these guidelines diligently.

Policies for Channel Partners

Pawar was aware of the importance of the channel partners and offered competitive margins. The margins offered to distributors ranged from 10 to 20 per cent depending on the category of the product. The margins of price-controlled products were lower than those of other products. Precia offered margins in the 20–30 per cent range to retailers, depending on the category of products. Also, there were sales promotion activities like bonus offers (10+1), sales contests, rewards, and recognitions. The company followed the credit policy used in the industry, where sufficient time was given to the distributors on the basis of their location (see Exhibit 6).

Precia followed a proactive relationship management policy, and the sales force was empowered to take prompt decisions to help customers. For example, in the case of expiry[[6]](#footnote-7) or breakage[[7]](#footnote-8) of products, MEs were allowed to issue credit notes for breakage/expiry to the extent of ₹1,000 per distributor per month after physical verification of the goods. ABLs were entitled to issue credit notes for breakage/expiry[[8]](#footnote-9) to the extent of ₹2,500 per distributor per month, and RBLs could issue credit notes for breakage/expiry to the extent of ₹5,000 per distributor per month after physical verification of the goods.

**PROMOTION TO PHYSICIANS**

Pawar believed in ethical promotion to physicians and emphasized good customer relationship management as the core of selling strategy. Sales teams were trained to have good product knowledge in order to handle different concerns raised by physicians. Precia used different selling resources to promote and market products to physicians. Selling resources such as stationery products, medicine samples, and sponsorships to attend national and international conferences and other medical events constituted significant elements in the relationship between pharmaceutical companies and the medical profession. Precia followed the stringent guidelines of the Medical Council of India when distributing promotional materials. The different promotional resources used by Precia for physicians were as follows.

Physician’s Samples

Physician’s samples of different medicines were considered the most effective means of influencing brand choices. Physicians used these samples with some patients to confirm the efficacy of the products. Precia provided a reasonable amount of samples to its field force to promote its products.

Academic Initiative for Physicians

Precia provided an academic platform for upgrading the knowledge of health care professionals in the diabetology, cardiology, and orthopaedic areas. The company organized and supported different continued medical education initiatives. It also distributed the latest medical literature to physicians. Physicians appreciated these initiatives.

Patient Program

Precia focused on educating patients and creating awareness about lifestyle diseases such as diabetes, blood pressure, obesity, and osteoporosis. The company supported novel patient-centric initiatives such as free diabetes and neuropathy detection, and free obesity and bone mineral density camps. It had conducted more than 200 camps for diabetes care and around 175 camps for neuropathy. It created awareness among over 10,000 patients who did not know they were suffering from diabetes and neuropathy and were thus untreated.

INDIAN PHARMACEUTICAL INDUSTRY

The Indian pharmaceutical market grew at a compound annual growth rate (CAGR) of 17.5 per cent during fiscal year (FY) 2005 to 2016, going from US$6 billion in 2005 to US$36.7 billion in 2016. The market was projected to reach approximately $55 billion in sales by 2020, with a CAGR of around 16 per cent. In March 2017, an Equitymaster report ranked the Indian pharmaceutical market the third largest in terms of volume and 13th largest in terms of value. The market was expected to become the sixth largest globally in absolute value by 2020. This growth was driven primarily by factors such as increasing consumer spending, rapid urbanization, greater acceptance of medical insurance, and increased government focus on rural health care infrastructure. The pharmaceutical companies’ ability to align their product portfolios with chronic therapies for cardiovascular disease, diabetes, depression, and cancer was expected to drive future growth in the domestic market. Branded products constituted nearly 80 per cent of the Indian pharmaceutical market share in terms of revenues.[[9]](#footnote-10)

Multinational pharmaceutical companies sold generic and low-priced versions of their popular brands to gain more market share in the rapidly growing Indian pharmaceutical industry. In contrast, Indian pharmaceutical companies capitalized on the affordability and popularity of their products when selling large volumes of low-priced medicines.

The first few seconds medical representatives pitched their branded medicines to physicians were the most crucial and intense moments in the competition for market share in the Indian pharmaceutical sector. As a result, Indian pharmaceutical companies conducted mass recruitments of sales representatives. This cut-throat rush to garner market share resulted in a relentless push for sales-force growth, which in turn reflected menacingly aggressive product promotions to physicians. To generate more prescriptions, companies polished their pitches for the limited face time with physicians to encourage “top of the mind recall.”

**ISSUE OF FALSE REPORTING**

David Katoley joined Precia Pharma in 2014 after completing his graduation. Katoley was a consistently high performer over the years. He achieved 101 per cent of his target in 2014, 105 per cent in 2015, and 103 per cent in 2016. In February 2017, Katoley’s ABL found some discrepancies in Katoley’s daily sales report for January 28. Katoley reported meeting three orthopaedic doctors that day, but when his ABL realized that he had met the same doctors at a medical conference in another city on that very day, he brought this issue to his RBL.

When the ABL and RBL discussed the matter with Katoley, he claimed that he had, in fact, met these doctors on January 25 but erroneously reported it as January 28. He apologized for this error and assured them that it would not be repeated. This was the first incidence of any ME being caught for false reporting. The RBL brought this issue to Pawar and asked for his guidance but suggested that the Katoley be given another chance.

CONCLUSION

Pharmaceutical selling was becoming tougher, and competition for market share was the most intense in the first few seconds of a medical representative’s product pitch to physicians for “top of the mind recall.” Mass recruitments of sales representatives, unattainable targets, aggressive product promotions, and undertrained executives were all linked to unethical practices and intense sales pressures in the Indian pharmaceutical industry.

Laddha’s email raised many concerns for Pawar and his team, including concerns about sales representatives’ challenges and unethical selling practices in the industry. Pawar wondered about the impact of the pharmaceutical industry’s fierce competition and aggressive atmosphere on Precia’s future strategy. How could his company maintain the ethical orientation of the sales team and at the same time achieve ambitious sales targets? What strategies could his company adopt to prevent his sales team from indulging in short-term unethical selling tactics? Which distribution issues required attention from top management? He also needed to come up with a likely disciplinary action against David Katoley for submitting a false report on customer calls. In the given scenario and keeping in mind the company’s strict adherence to ethical practices, should he fire Katoley or give him another opportunity, as suggested by his RBL?

EXHIBIT 1: EMAIL FROM MARKETING EXECUTIVE

Dear Sanjay Sir:

I am pleased to inform you that I have achieved 104 per cent of my target for January–February 2017, with a growth of 22 per cent over January–February 2016.

The Indian pharmaceutical industry is highly competitive, and there is lots of pressure on the sales representatives. I want to draw your attention to a few issues plaguing sales management in the pharma industry. Sales representatives are working under pressure from their seniors to achieve the sales targets, and many sales representatives are using unethical practices to achieve their targets. Some examples are:

Sales managers of several companies are demanding an “at any cost” approach from their sales representatives to meet sales targets. They are asking their sales representatives to share their salaries/incentives with the distributor to achieve their targets. Under pressure, sales representatives are indulging in unethical means like false reports of their travel, fake invoices of lunch/dinner with the physicians, and fake invoices of arranging meetings for the doctors.

Sales representatives in collusion with their managers are raising false expiry/breakage claims to take orders from their distributors. For example, a sales representative of a pharma company raised a false credit note for expiry and breakage worth ₹10,000 to take an order of ₹200,000. This is a 5 per cent adjustment for the order amount. This practice is becoming quite rampant. I could not get the optimum order from one of my distributors as he was asking for this favour to place an order.

Sales representatives of some companies are offering an additional credit period to take orders. For example, a sales representative of a pharma company recently provided an additional credit period of 15 days to a distributor to take an order of ₹350,000. This company charges 23 per cent interest per month for late payments so this privilege of 15 days is almost equal to ₹40,000 at simple interest of 23 per cent. One of my distributors asked for an extra credit period to place an order.

A few unethical sales representatives are giving physician’s samples to retailers and distributors as an adjustment to take orders from them. Physician’s samples are for the doctors, and it is a valuable resource to generate prescriptions from the doctors. Wasting physician’s samples can result in the loss of prescriptions and will lead to low sales in the long term.

Sales representatives are encouraging the transfer of goods from their territory to the adjoining territories. This unethical practice is resulting in intra-competition between the sales representatives, and more sales representatives are indulging in this practice. I also know some area managers who encourage the transfer of goods from their area to the areas of other managers. This is affecting the actual sales effort in the field.

Many smaller companies are collaborating with doctors and giving commissions to the extent of 50 per cent for prescribing their products.

Also, there is increasing nexus between physicians and pharmacy retailers in the hospitals. Many times, the retailer is a relative of the physician, and these physicians prescribe the products of only those companies who provide additional discounts, medicine samples, and gifts to those retailers. I am facing this issue with a few of my customers.

I have been working with Precia for the last three years and I am proud of our company’s culture and sales management processes, but I think these unethical practices in the market may affect us in the long term. I request your good self to kindly think about a suitable strategy to safeguard our company.

Regards,

Munish Laddha

Source: Company documents.

EXHIBIT 2: PRECIA SELECTED FINANCIALS, 2012–2016 (in ₹ millions)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2012** | **2013** | **2014** | **2015** | **2016** |
| Total Revenue | 380 | 1,150 | 1,532 | 1,786 | 2,212 |
| Cost of Sales | 103 | 281 | 388 | 443 | 566 |
| Gross Profit | 277 | 869 | 1,144 | 1,343 | 1,646 |
| Salary and Field Expenses | 228 | 514 | 628 | 560 | 712 |
| Marketing and Business Development Expenses | 122 | 329 | 286 | 515 | 619 |
| Other Expenses | 18 | 46 | 87 | 107 | 133 |
| Net Profit/(Loss) | –91 | –20 | 143 | 161 | 182 |

Source: Company documents.

Exhibit 3: PRECIA’S top Five products (by sales)

|  |  |  |  |
| --- | --- | --- | --- |
| **Rank** | **Brand Name** | **Category** | **Launch Year** |
| 1 | Endoformin | Diabetes | 2011 |
| 2 | Endocal | Orthopaedics | 2012 |
| 3 | Mylonerv | Diabetic Neuropathy | 2011 |
| 4 | Pantoza | Diabetic Gastropathy | 2011 |
| 5 | Ngsart | Cardiac, Antihypertensive | 2011 |

Source: Company documents.

Exhibit 4: PRECIA LOGISTICS

Central Warehouse

C&F Agents

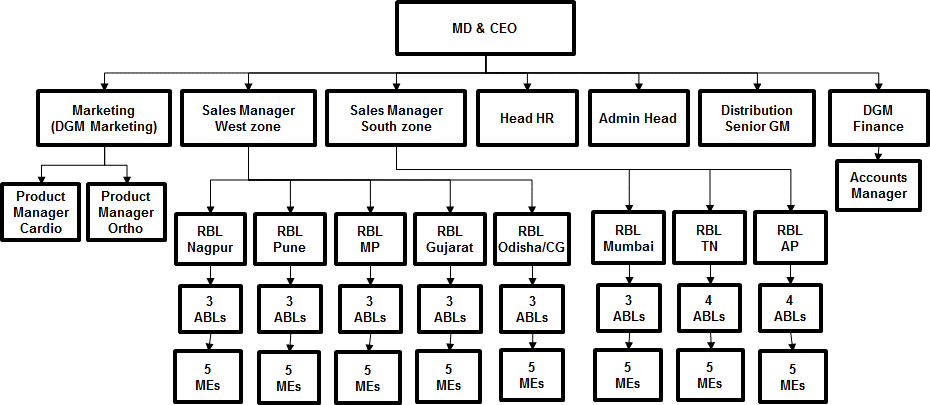
Distributor

Retail Pharmacy

Customer

Source: Company documents.

Exhibit 5: PRECIA ORGANIZATIONAL STRUCTURE



Note: MD & CEO = managing director & chief executive officer; DGM = deputy general manager; HR = human resources; RBL = regional business leader; ABL = area business leader; ME = marketing executive.

Source: Company documents.

Exhibit 6: PRECIA’S CREDIT POLICY FOR DISTRIBUTORS

|  |  |
| --- | --- |
| **Category of Distributor** | **Number of Days** |
| Local | 7 |
| Out-station | 14 |
| Rural | 21 |

Notes: Local: distributor based in the city of C&F Agents; Out-station: distributor in other cities; Rural: distributor in the rural areas.

Source: Company documents.

1. Jyothi Datta, “Medical Rep’s Suicide Raises Concern over Sales Pressure,” *Hindu Business Line,* July 24, 2016, accessed March 11, 2017, www.thehindubusinessline.com/companies/medical-reps-suicide-raises-concern-over-sales-pressure/article8894115.ece. [↑](#footnote-ref-2)
2. ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; ₹1 = US$0.02 March 31, 2017. [↑](#footnote-ref-3)
3. Distributors were also known as wholesalers/stockists. [↑](#footnote-ref-4)
4. Different companies used different names for their frontline salespeople. Many pharmaceutical companies used the term “medical representative” to describe their salespeople. [↑](#footnote-ref-5)
5. Sales audit was a mechanism to assess the different selling processes of organizations, such as sales revenue, customer call frequency, expense-to-sales ratio, and revenue and profitability of different sales representatives, customers, and territories. It also helped to check the implementation of different processes related to the sales of an organization. [↑](#footnote-ref-6)
6. Medicines had a fixed shelf life, and they were considered expired products after the expiration date. [↑](#footnote-ref-7)
7. Many pharmaceutical products like cough syrups were available in glass bottles, and there was a possibility of breakage of these products during transportation. [↑](#footnote-ref-8)
8. Credit notes were issued by pharmaceutical companies for the expiry and breakage of medicinal products at the distributor or retailer level. [↑](#footnote-ref-9)
9. “Indian Pharmaceutical Industry,” Indian Brand Equity Foundation, March, 2017, accessed March 15, 2017, www.ibef.org/industry/pharmaceutical-india.aspx. [↑](#footnote-ref-10)