Practice Case 14 (Pharmaceutical Company)

Question and Background Information

Our client is the U.S. pharmaceutical division of a multi-national corporation. In about six months the division will receive FDA approval to launch an anti-depressant drug. Despite this apparent good news from the FDA, the U.S. division is not elated. It has concerns over the market potential for this drug and its ability to reach the key prescribers in this therapeutic category. We have been asked to help determine whether they should 1) launch alone, 2) co-market with a partner, or 3) sell, license or swap the drug.

The concerns over market potential center on whether the drug can gain adequate competitive advantage in a market segment having two dominant, patent-protected competitors and nearly 100 generic competitors. Additionally, a higher technology antidepressant, which appears to offer therapeutic advantages, was recently introduced by a competitor.

Gaining the professional endorsement of psychiatrists is crucial to success in this therapeutic category since they write approximately half of the prescriptions for antidepressants. However, the division has no experience marketing drugs to this physician group. Consequently, it would have to hire a sales force and/or enter into a co-marketing agreement to gain access to psychiatrists through someone else's force. The client would be able to leverage its existing sales force to reach the other half of the prescribers (Internal Medicine Specialist and Family and General Practitioners).

How would you help them decide whether to 1) launch alone, 2) co-market with a partner, or 3) sell, license or swap the drug to a third party?

Commentator: *Note here what is being asked, "How would you help them decide." What is not being asked is "Which is the correct option to choose?" The Interviewer is looking more for how this problem is approached than for the "correct" answer.*

Also note that it is totally appropriate to take some time to organize your thoughts before launching into the case discussion.

Response

Candidate: In helping the client decide which option they should choose, I will want to guide them to the option that will create the most value. To understand main value drivers (i.e., profitability drivers), I will first explore the market attractiveness and our competitive position within that market in order to determine revenue potential. After that, I will explore the major cost issues.

Starting with the revenue, I'll want to understand first what the overall market revenue opportunities are for this type of drug in addition to our product specifically. Now, the client expressed concern over the market potential for this drug. How big is the market and what is its potential growth rate?

Commentator: Here the Candidate has done several things. First, the Candidate has stated the overall objective, value creation. Next, the candidate stated the method of walking through this problem, looking at revenue by using a market economics and competitive position framework, then looking at costs.

The Candidate provided a roadmap. Now the interviewer understands the approach and expected direction of questioning. This helps the interviewer understand the student's thought process - how he or she thinks through business problems.

Interviewer: The overall antidepressant drug market is relatively attractive at $1.1 billion per year and is growing well in excess of the population growth rate.

Candidate: You mentioned that concerns over market potential center on whether the drug can gain adequate competitive advantage in a market segment having "two dominant, patent-protected competitors and nearly 100 generic competitors." You also mentioned that a higher technology drug had entered the market. Is the antidepressant market segmented by technology?

Interviewer: Yes.

Candidate: And the two patent-protected competitors along with the 100 generic competitors are within our technology segment?

Interviewer: Correct.

Candidate: So, the overall antidepressant market is attractive at $1.1 billion, but within that market, there are segments based on different types of technology that may or may not be attractive.

Interviewer: That's correct.

Candidate: What is the technology associated with our client's product?

Interviewer: Tricyclic antidepressants.

Candidate: How fast is this technology segment growing?

Interviewer: As a matter of fact, substitution by the new technology may cause a decline in sales over the next 5 years. Additionally, the existing competitive environment is very intense and will only increase if the market shrinks.

Candidate: So, the overall segment is not very attractive.

Interviewer: Correct.

Candidate: What percent of the volume do the two main competitors have?

Interviewer: In our own technology segment, the leader has approximately 10% and the number two player has about 4%. The rest of the 100 competitors each has less than a 2% market share. By comparison, the new technology has captured a 20% market share of the total antidepressant market.

Candidate: How much will our client's product be able to differentiate itself within our technology segment?

Interviewer: Not much. In a market research study we commissioned, the product was seen as very similar to the number two product in our technology segment, slightly inferior to the number one product, and slightly better than the generic products. The new technology was viewed as far better due to a lower level of sedation.

Candidate: So to summarize the market environment, although the anti-depressant market is attractive, the segment that we would be participating in is relatively unattractive and runs the risk of becoming smaller and more competitive over time. Additionally, within this unattractive segment, we have limited ability to differentiate ourselves relative to our competitors, and thus, will not be able to charge a premium price.

I would think that this unattractive market and relatively undifferentiated position within that market would translate to a lower market share. I would estimate that our share might be lower than either of the branded products given our new presence in the market, say maybe a 2-4% share and this, like the rest of the segment, would probably decline over the next couple of years.

Interviewer: That sounds about right.

Commentator: In understanding the revenue potential, the Candidate did several key things.
1) Disaggregated the antidepressant market.
2) Established the overall attractiveness of the relevant market segment.
3) Established the client's relative attractiveness to competitors within that segment.
This enabled the Candidate to come to the correct conclusion that an undifferentiated position within a relatively unattractive market will limit the revenue potential.

Also, note that the Candidate is doing most of the talking. Use the interviewer to clarify questions or provide information, but the Candidate must lead the discussion.

Candidate: Knowing that our revenue potential is relatively low puts more pressure on minimizing the costs if we were to market the drug. I want to see what area within the cost structure impacts profitability the most. What percent of net sales is COGS?

Interviewer: About 20%

Candidate: And what is the bulk of the remaining line items?

Interviewer: Most of it is selling expense. There are some overhead/admin and advertising and promotional expenses, but most of it is selling expenses.

Candidate: So, selling expense is the largest portion of the cost structure, which means that whichever option we choose, launching alone vs. with a partner will certainly impact the selling expense (in addition to the number of prescribers reached, thus revenue potential).

Commentator: You can pick up good "tips" here. Spend time on things having high impact and feel free to test and see how important they are. Tests might include how large something is as a percentage of sales, how important it is to the customer, or how much of an impact it has on manufacturing economies, etc.

Candidate: In understanding the effect of the co-market agreement on number of prescribers reached, I think it would be helpful if I could get an idea of who makes the purchasing decision.

Interviewer: Well, there are four main parties involved. There are the manufacturers (such as our client), the doctors (who prescribe the drug), the druggists (who fill the prescription) and the patient (who initiates the transaction). Selling is concentrated on the doctors, since they are the group that determines if medication is needed and, if so, what type.

Candidate: Is the growth in managed care going to influence the dynamics of this?

Interviewer: Yes, but for the purposes of our work, let's not address that.

Candidate: So, for the purposes of our work, the doctors make the purchasing decisions, this includes two groups of physicians, the Psychiatric group and the Internal Medicine/General Practitioner group.

Interviewer: Correct.

Candidate: You noted that we don't currently have connections to psychiatrists. This group prescribes half of the antidepressants. Can we launch the drug by only marketing to IMs and general practitioners and ignoring psychiatrists?

Interviewer: No, they are at the top of the pyramid of influence and thus must endorse the drug before their colleagues in the IMP/GP will endorse it.

Candidate: So if we are to market this product, we cannot do so without the Psychiatric group. The weight of the decision then becomes a matter of what is the most efficient and effective way to reach them—either through a newly hired sales force or with a co-marketing agreement.

Interviewer: Correct.

Candidate: What are the advantages and disadvantages of marketing the drug ourselves?

Interviewer: In terms of having our own sales force, the main benefit would be that we would be concentrating on our product only and this may help sales. On the downside however, the cost of this focus is all attributed completely to our product, and having a dedicated sales force representing only one product would be expensive.

Candidate: Do you have any other psychotheraputic drugs in development or plans to expand this part of your portfolio through licensing?

Interviewer: Nothing is planned for the next three years.

Candidate: So by entering a co-marketing agreement, the costs of the sales force is spread across several products, and, if the co-marketer did not have a competing product, then our product would get the appropriate selling attention warranted. Also, since this sales force has existing relationships with the psychiatrists and doesn't need to take time to further establish these relationships, sales of our product might peak sooner. So, all in all, I would think that if we were to market this product, it would be a less costly and higher value option to enter into a co-marketing agreement rather than go it alone.

Commentator: Here, as with most case interviews, the Candidate has the opportunity to go "deep" into an issue. The Candidate has chosen to do this here with one type of cost, the sales force. The Interviewer is looking to see if the Candidate can identify some of the key "value" drivers of the function being explored. In the case of the sales force, the Candidate correctly identified the key value drivers as being:

1) The ability to spread the cost of a sales call across multiple products.
2) The ability to choose a co-marketer that needs this product in their existing product line.
3) The ability to leverage an existing psychiatric sales force infrastructure to reach peak sales sooner.

Remember, there are many value drivers. We have touched on a few, but don't be concerned about identifying the "right" ones, just try to identify what type of issues affect the situation the most.

Interviewer: OK, and what about the third option, to sell, license or swap the drug to a third party?

Candidate: Again, the client would want to choose the option that was more value creating. There could be several reasons for going with the third option:

1) We might sell our drug because the sum of the promotional or overhead costs may make it unprofitable for us to market whereas a company having a similar product line might be able to carry this product at a very small incremental cost.
2) We might license it for the same reasons we would sell it.
3) We might swap it if we could find a company needing this type of drug while having a drug that might fit more with our existing infrastructure.

In any case, for the options being considered, I would want to forecast cash flows and discount them back to see what option is more value creating before making a final recommendation.

Interviewer: OK, thank you for your input on how to approach this problem.

Commentator: You'll note here, that the Candidate doesn't actually make a final recommendation. This is fine. The Candidate has demonstrated how he would approach the problem, and in doing so, has hit on many of the key issues you would find in a real client case situation.

Recapping the steps the Candidate took into evaluating the client's options:

On the revenue side:
1) *Segmented the market to the appropriate technology level.*
2) *Determined that the segment was unattractive .*
3) *Determined that the client's product was not significantly differentiated.*
4) *Concluded that for these reasons, the revenue potential was limited.*

On the cost side:
1) *Determined that selling expense was a key component to profitability.*
2) *Determined that the Psychiatric group needed to be included in the selling efforts.*
3) *Determined that it would be less expensive to co-market vs. go it alone.*
4) *Determined that there are other considerations to evaluate when comparing co-marketing vs. selling, licensing, or swapping the product.*

Interviewer: Provide summary comments and wrap-up.