

Opti™: A Retail Channel Choice Marketing & Sales Conflict

Background

Rodrigo Antunes, Chief Marketing Officer for Savite Pharma Brazil, finished yet another frustrating meeting with Walter Miron, the Sales VP. They had argued once more about the marketing channel approach for the osteoporosis product Opti™ (optinat). Rodrigo was a prominent defender of a new type of retailers called deliveries, which commercialized specialty medicines and provided home delivery (thus the name). Walter, on the other hand, thought deliveries had little importance concerning overall business potential and were just a fad with no future in the pharma business. Besides, until he saw some hard numbers showing deliveries could improve sales more than pharmacy chains, he wouldn't discuss the topic any further.

Savite Pharma

The Belgian company was the result of a plethora of mergers and acquisitions, resulting in a patchwork of people, cultures, processes, products, and beliefs. The last of them took place in 2004, when Santé Produits Pharmaceutiques acquired Native Pharma, becoming a 100% European company. For some time after the integration, Savite became the number one pharmaceutical company in the world, but it was surpassed after one year and became the number three. In Brazil, Savite remained the number one company, with annual sales of USD 264 million, and a value market share of 6.6%. Nevertheless, Savite faced greater and greater threat from local generic manufacturers, that were growing at rates much above those of international companies. Generics became a big headache for Haroldo Marques, President of Savite Brazil, who had to keep explaining to the headquarters why they remained losing market share. Savite's product portfolio was a bit lackluster, 70% of it being mature products. Fortunately, there were some recent launches performing well, one of them being Opti™ (optinat).

Opti™ (optinat)

Opti™ is an oral osteoporosis treatment that was second to market in its category, a couple of years late versus MSD's Fosamax, the leader. Opti™ had already reached USD 6.8 million in annual sales and grown +40% versus the previous year.

The most significant challenge Opti™ faced wasn't rivalry since it was competing in an emerging product category, the bisphosphonates. The products in this class were the most efficacious in preventing fractures, the worst outcome of osteoporosis. The treatment time to start showing anti-fracture efficacy for a patient was from 6 to 12 months. The big issue was that most patients

didn't remain on treatment for more than a few months since osteoporosis is a disease without symptoms. For most, the first signal is the loss of height due to vertebrae crushed by fractures.

The growth in sales came from including more and more new patients, but at the same time, patients were dropping out of treatment. The net result was still positive, but for Opti™ to take off, the marketing team had to come up with a way to keep patients in treatment longer.

In other words, a key success factor was in getting patients' adherence. Adherence is a medical term for the patient sticking to the treatment both regarding time span (persistence) and the way to take the medication (compliance).

There were some barriers for this to be achieved:

- a) Patients under treatment are mostly women over 70 years of age. They have some difficulty in locomotion and going to a drugstore is an issue for some
- b) Patients may have some degree of memory loss, so remembering to take the medication was also a challenge
- c) Sadly, many of the patients lived alone, and family members made only infrequent visits. As a result, there was no one to remind them to take their medications.
- d) Opti™ was to be taken once-a-week, in the morning before breakfast. The patient had to choose a day in the week and put some sort of reminder, not to forget the dose
- e) The price of Opti™ was reasonably high and made some patients discontinue treatment
- f) The success of the treatment was only measurable by exams: scans and x-rays of vertebrae and hip. Patients couldn't "feel if they were getting better," so motivation to keep being treated was also a challenge

The marketing team was under great pressure to come up with a plan to overcome these constraints to greater success.

Walter Miron, Sales VP

Walter Miron was a conservative Brazilian sales professional. He had started his career as a sales rep, visiting doctors to generate demand through prescriptions and small independent pharmacies to sell, take orders, and collect the payment of invoices. He then became a district manager in Sao Paulo supervising eight sales reps and negotiating with drug wholesalers and drugstore chain purchasing departments. Because of his no-nonsense approach and street smarts, Walter raised in the ranks and became a regional sales manager and after a few years the Sales VP, upon the unexpected departure of his boss.

This move was quite a career jump. Savite was the third largest pharmaceutical company in Brazil, with a broad product portfolio ranging from over-the-counter (non-prescription) medicines to oncologic products. Given the importance of the country worldwide, he was under constant scrutiny from global functions and had to provide monthly and sometimes bi-weekly reports to the headquarters. Luckily, he had full support from his boss, Haroldo Marques, the Savite Country President, also a Brazilian.

Walter often criticized marketing folks for being out of touch with market realities and made fun of those who had more of an analytical approach to business. He profoundly disliked corporate marketing and English posed a significant obstacle for him to communicate, what didn't help.

Over the years, he built an impressive nationwide network in the pharma commercial landscape, with wholesalers and retailers, big and small.

He had a strong sense of loyalty to traditional retail, being a friend of many drugstore chain owners. He couldn't understand Rodrigo's obsession with the deliveries. This type of retailer was a neglectable business.

Rodrigo Antunes – Chief Marketing Officer

Rodrigo Antunes had started in Savite as an intern after finishing university and slowly but solidly had taken higher positions in the marketing of the Brazilian organization, then in the Latin America region and finally in global marketing, as the international product manager for Opti™, based in New York. In the position, he had coordinated the launch of this product in most countries around the world.

After four years of expatriation in the United States, he returned to Brazil with a major promotion. He was chosen as the Chief Marketing Officer of Savite Brazil. The new responsibility was big since he would lead a team of 40 marketing professionals. It was somehow ironic that now, at 40 years of age, it would be the first time he would directly manage people. Over the previous 18 years, he had held "one-man show" positions, or just with functional responsibility for other people.

Opti™ was one of the most recent launches, and in his viewpoint, the product's potential had barely been explored. Having been the global marketing manager for Opti™, Rodrigo kept a close watch on the product's sales results and sometimes teased the marketing team saying that it was a blessing for them that he had been the global Opti™ Manager. And he warned that this could also become a curse.

Rodrigo knew that the distribution and placement of Opti™ had room for improvement. And also any change in this area would depend on the agreement and collaboration from Walter Miron, the Sales VP. Luckily, he had known Walter for many years and, although the relationship couldn't be called friendship, they had always got along well.

There was one thing that annoyed Rodrigo profoundly: Walter tended to patronize him, perhaps because Walter was older and already a manager when they first met – and Rodrigo just an intern then.

In any case, Rodrigo felt he could turn Opti™ into a huge success, and he thought he knew exactly how.

Deliveries, Drugstores, and Pharmacies

Deliveries were not common retailers, such as pharmacies or drugstores. They operated out of small warehouses and didn't have regular stores. They didn't carry the full product portfolio of pharmaceutical companies, only high priced drugs for chronic conditions. They employed fewer workers than regular retailers and operated with a low-cost structure. Deliveries' value proposition was based on the intimacy they developed with their customers. Their service included, besides medication delivery, prescription refill reminders, healthy living tips, and information on coping with chronic diseases. Their call center attendants would regularly phone their customers, who would also get birthday and holiday cards. Pricewise, deliveries charged customers roughly the same as drugstore chains.


Drugstore chains and independent pharmacies operated differently. They sold the full product portfolio of pharmaceutical companies – and were expected to buy any new launch and be adequately stocked. They were in high traffic areas, where real-estate is costly, and employed numerous clerks, stockers, cleaners, pharmacists. While drugstore chains put a big emphasis on customer satisfaction, that was limited to the in-store experience. Once a customer left a store, no interaction was kept, until the next visit. Drugstore chain stores didn't find that home delivery was interesting business-wise. Logistics could be a nightmare regarding transportation and prescription collection – that meant added cost and a low-margin transaction. Besides, a meaningful part of the profits of drugstore and pharmacy chains originated in non-planned purchases – over-the-counter medicines and beauty products – made during visits for prescription refilling. In other words, customers buying without entering the physical store was bad for business.

The Opti™ Patient Program

Rodrigo knew that the only possible way to speed up growth for Opti™ was to increase treatment length. It was already known that out of every ten patients that started taking Opti™, only three would remain on treatment after six months. On average, each patient would stay only 6.4 months on treatment, which was far from acceptable. After many discussions with the marketing team, a solution was proposed: to create the Opti™ Patient Program, that would try to solve the main barriers to treatment adherence through multiple solutions. The program would operate through deliveries, and be based on five pillars, or five “Rs”:

- **Reward:** The patient would get a free treatment month for every three months purchased
- **Ready Delivery:** The patient would order by phone, and the product would be delivered at home, in less than 24 hours
- **Rebate:** The price the patient would pay was 15% lower than the one charged at pharmacies
- **Reminder:** The patient would receive a call reminding it was almost time for a prescription refill
- **Relationship:** The patient would receive calls from attendants now and then to ask about the treatment and their overall well-being. Birthday and Christmas Cards would be sent. Websites and other online tools were not popular in this age bracket.

The 5 Pillars of the Opti Patient Program



■ **Reward**

■ **Ready Delivery**

■ **Rebate**

■ **Reminder**

■ **Relationship**

Mrs A Price Age 67

- Postmenopausal since age 45
- No hormone replacement therapy

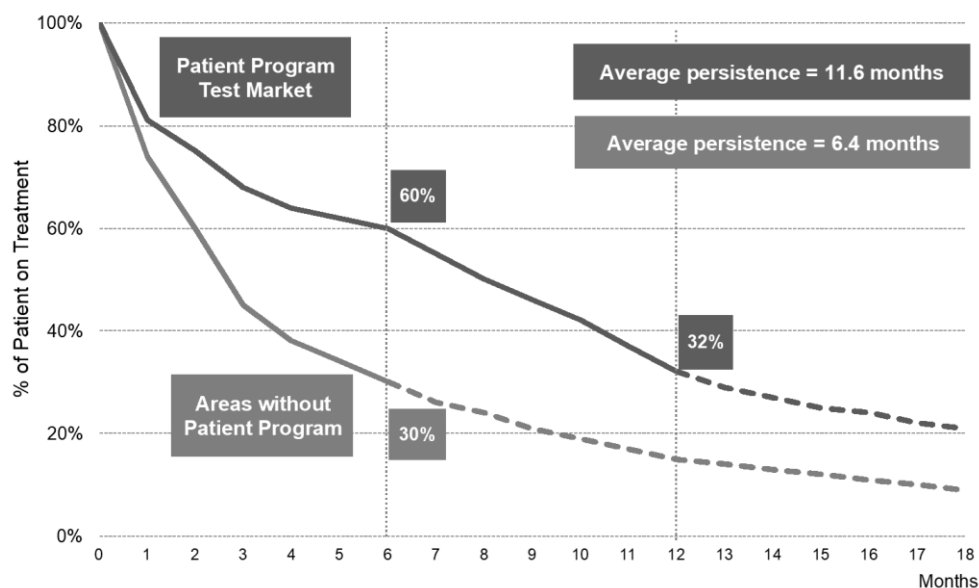
Symptom: Acute localised pain in lumbar spine

To be sure about the effectiveness of the program, a pilot was conducted in a test-market, tracking the purchase behavior of the patients (patients remained anonymous, and the company had no

information about them). The deliveries chosen for the test-market had to implement the five pillars and comply with the recommended prices.

After six months, the differences were evident: in the areas where the program had been implemented, 60% of the patients remained on treatment, while in the areas without the patient program the number was 30%. After 12 months, these numbers were 32% and 15%. At the end of the pilot, it was found that patients in the patient program remained on treatment for an average of 11.6 months, while for patients out of the program the number was 6.4 months. In other words, the implementation of this action could almost double treatment time/volume.

Opti™ Patient Program – Pilot-Test Results



With these results in hand, Rodrigo knew he had what was needed to convince Haroldo Marques, Savite's Brazil President, that switching the commercial channel from drugstore chains to deliveries was the right thing to do. He called Haroldo's assistant and asked for a meeting.

The Meeting

Rodrigo Antunes invited for the meeting with Haroldo only three other people: the finance analyst, the market research expert and Opti's product manager. Rodrigo briefly explained the idea of the commercial strategy, followed by market research, which showed the results of the patient program in the test market. Haroldo made a lot of questions and, by having a marketing background, quickly understood the concept. He was nevertheless concerned about the level of discounts, almost five times higher than the normal discount to the pharmacy chains. What would happen to the net sales? It could grow a little, but was it worth the trouble?

It turns out Rodrigo had had finance crunching the numbers, and the analyst presented the two scenarios: what would have happened that year if all sales were done through pharmacy chains compared with all the sales being done through the deliveries, meaning, the patient program. He decided to present it himself:

Opti Sales Year N, USD	Without Patient Program	With Patient Program	Delta
Average Persistence (Months)	6.4	11.6	81%
List Price (Box 4 Weeks)	59.74	59.74	0%
Boxes Sold (000)	123	223	81%
Gross Sales (USD Million)	7.3	13.3	81%
Total Discount %	7.5%	35.5%	28%
- To Pharmacy Chain	7.5%	-	
- To Patient	-	28.0%	
- To Delivery	-	7.5%	
Net Sales (USD Million)	6.8	8.6	26%

“Mr. Marques, as you see the growth in the number of boxes sold will go up 81% if all the sales are done through the patient programs”, explained Rodrigo. “The total discount here would reach 35.5%, but the 81% increase in volume more than makes up for the increase. Without the deliveries, the net sales reach US\$ 6.8 million. With the patient program, channeling all sales through deliveries, net sales would have reached US\$ 8.6 million. That’s a 26% increase, or US\$ 1.8 million in additional net sales, that could have been used in part to invest in more promotion.”

Haroldo Marques questioned a little more. What the 28% discount for the patient represented? How to be sure that discount would be passed over to the consumer, and not pocketed by the delivery? Rodrigo explained that 25% was the “cost” of the additional month of treatment given to each patient that purchased every three boxes. The remaining 3% was an additional rebate, so the patients in the program felt “more special” than the others buying in drugstores and pharmacy chains.

Haroldo asked how did Sales feel about the proposal, meaning, was Walter Miron in agreement? Rodrigo had to confess that, although he had been discussing the idea with Walter, there was still no agreement. And neither the study results nor the financials had been shared.

Haroldo asked his assistant to have Walter joining the meeting. Less than five minutes later he was there, just furious for not being invited to the meeting. And he got even madder when asked to give his opinion on the numbers he was seeing for the first time.

Walter Miron: “Frankly Haroldo, this is not acceptable. I am called to a meeting to talk about some idea I’ve never heard of. An idea that deals with commercialization, which is a part of the business I am the one 100% responsible for. I am not going to give my opinion until I have time to consider the idea with my KAMs.”

Rodrigo Antunes: “Mr. Marques, with all due respect, Walter and I have talked about this idea a few times already. He is the one who wanted to see the numbers. Well, here are the numbers and they show my proposal will work.”

Haroldo Marques: “C’mon Walt. You have an opinion for sure. You know the channels; you know the clients. Just tell us what you think.”

Walter Miron: “Fine. I’ll speak up my mind, then. I am completely against this marketing invention. Deliveries are small stuff. They buy what they want when they want. Rodrigo, you want to give them 35.5% discount? You’re crazy! They will happily pocket this money. Maybe even resell to small wholesalers at a nice profit. The pharmacy chains, our true business partners, will find about this and will be very unhappy. They will retaliate. They will stop buying our smaller products – they will feel no obligation to do so. C’mon, they only get a 7.5% discount and have a high overhead: rent in premium locations, salaries of thousands of clerks, utilities, the cost of keeping the inventories we need. To make a few more bucks with Opti, we will jeopardize 99% of our sales. We are wasting our time here”.

Haroldo looked at Rodrigo as saying, “are we wasting our time here”?

Rodrigo Antunes: “Walter, I understand your arguments, but they are not valid. Deliveries may look small now, but their business model is growing year-by-year. Of course, their participation in our total sales is still small – but it is a big chunk of Opti™ sales already – and will grow even more when we roll-out the Opti™ Patient Program in deliveries all over the country. Out of the 35.5% discount, 28% is the bonus for the patients – and deliveries provide detailed patient-by-patient purchase patterns – there is no risk they will falsify information. By the way, can the pharmacy chains provide patient-by-patient purchase behavior? The decision is easy: look at the numbers.”

Walter Miron: “These numbers are just marketing blah-blah-blah. They are not the market reality. Sure, pharmacy chains can’t give us patient-by-patient sales. Anyway, what’s the use for that? Patients buy one day here, the other day there, different stores, different chains. But if this is so important to you I may convince some chains to collect the data.”

Rodrigo Antunes: “Walter, you just don’t get it. It is not only individual patient purchases that pharmacy chains can’t provide. They can’t control the free treatment month given to patients that stay on treatment. They can’t make home-delivery. They can’t phone patients reminding to refill the prescription. They can’t even send birthday cards to customers. These all are very important.” And turning to Haroldo: “Mr. Marques. We need more big products. The only way to make Opti™ a big product is to implement the Opti™ Patient Program through deliveries.”

Walter Miron: “But what about the rest of our products? Our clients...”

Rodrigo Antunes: “Walt, as you said already, Opti™ is a very small part of the pharmacy chains business. So, they shouldn’t care. It is your job to explain that to them. Of course, everybody knows the owners of big pharmacy chains are all personal friends of yours, so it must be hard for you to...”



Walter was livid with anger.

Walter Miron: “Are you accusing me of favoring clients? Of not being professional? I am very insulted. Apologize – now!”

At this moment Haroldo Marques stood up.

Haroldo Marques: “You two now stop. The meeting is over. I don’t expect my staff to be friends of one another, but they must work together as a team. I want you to come up with a joint recommendation about deliveries and this Opti™ program. You two have a week, and frankly, I don’t care how you will do it.” And he left the room.

Later in his office, Haroldo wondered whether he should get involved in this quarrel, and help Walter and Rodrigo to find a solution. He decided to think a bit more about this.

Profile		
Name	Walter Miron	Rodrigo Antunes
Age	48	41
Status	Married	Married
Children	Son (18-year-old) and daughter (16-year-old)	Daughter (7-year-old)
Current Position	Sales Vice-President	Chief Marketing Officer
Years in Current Position	5	1
Reporting to	Haroldo Marques, President	Haroldo Marques, President
Education	Business Administration – St. Andrews Community College	Business Administration – University of San Francisco & Post-Graduation in Marketing at the University of Sao Paulo
First Job	Sales Rep, as an 18-year-old	Marketing Intern, as a 21-year-old
Positions	Sales Rep (6 years), District Manager (8 years), Regional Manager (8 years), National Sales Director (2 years)	Product Manager (8 years) Latin America Marketing Manager (5 years), International Product Manager (5 years)
Job Rotation	Training Manager (1 year)	Sales Rep (6 months)
Team	2 national sales directors, 6 regional managers, 80 district managers, 100 key account managers and 700 sales reps	40 marketing, market research, training, and medical professionals
Years of Work	30	20